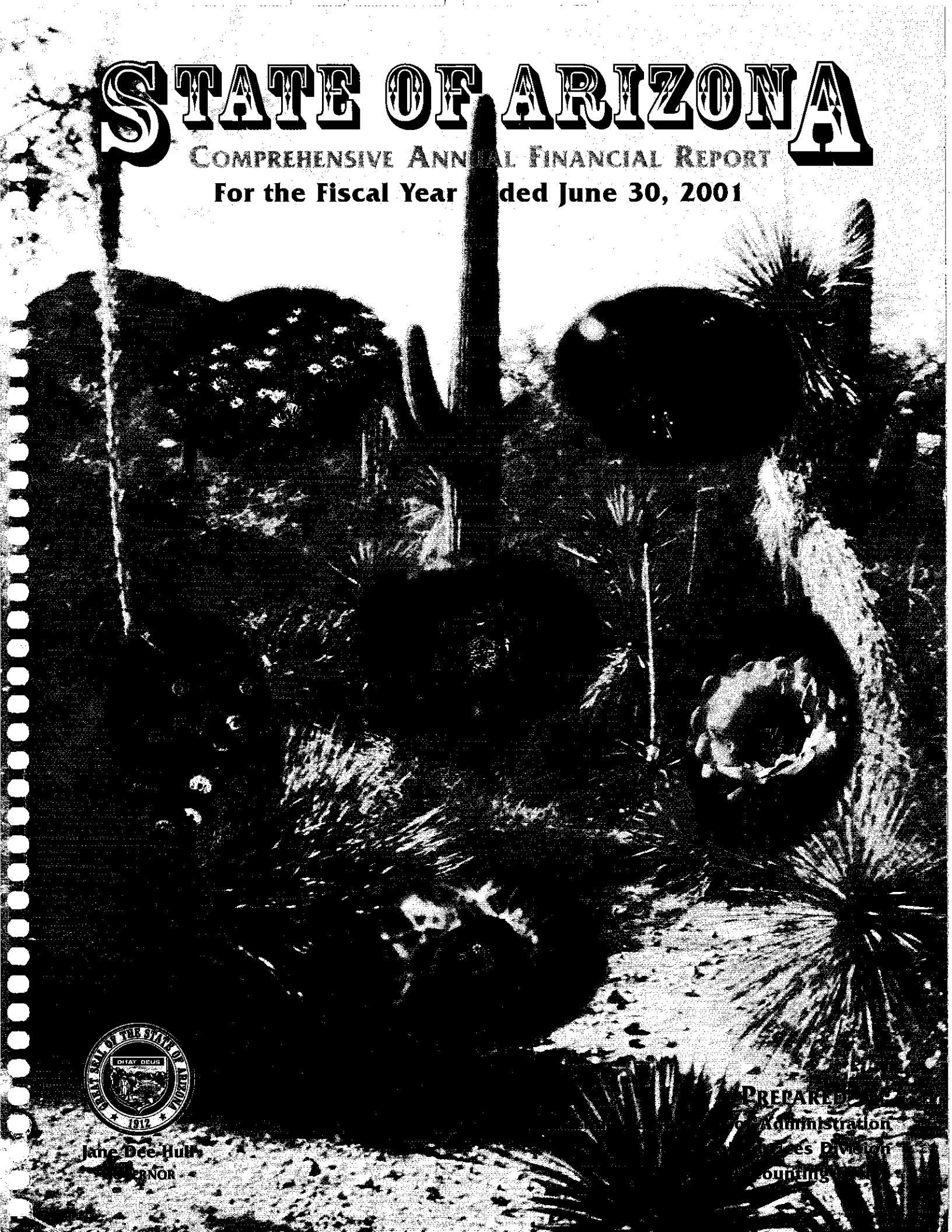
STATE OF ARIZONA

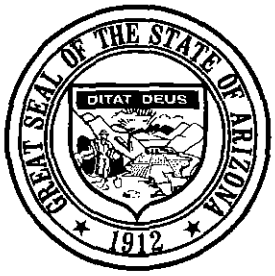
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2001



Jane Dee Hull
GOVERNOR

PREPARED
Administration
Services Division
Accounting



Credit

Photographs courtesy of the Desert Botanical Garden.
Photographs taken by César Mazier.

STATE OF ARIZONA
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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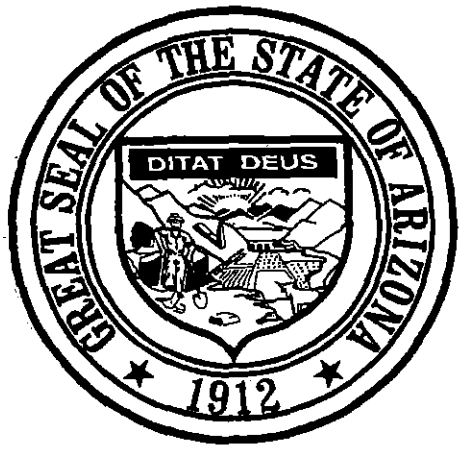
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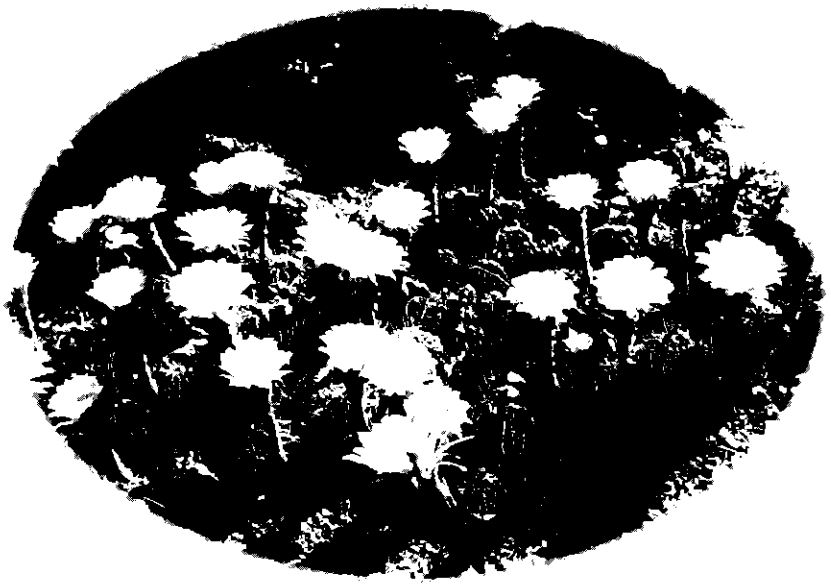
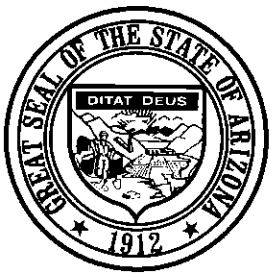
Introductory Section





Canary

The canary (Echinopsis hybrid), a summer night-blooming plant, has a spectacular bloom that closes as soon as the summer sun rises.

JANE DEE HULL
GOVERNOR

J. ELLIOTT HIBBS
DIRECTOR

ARIZONA DEPARTMENT OF ADMINISTRATION

OFFICE OF THE DIRECTOR
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December 14, 2001

The Honorable Jane Dee Hull
Governor of the State of Arizona,
Members of the Legislature, Chief Justice of
the Supreme Court and Citizens and Taxpayers
of the State of Arizona

Ladies and Gentlemen:

In accordance with Section §35-131 of the Arizona Revised Statutes (ARS), it is our pleasure to transmit to you the Comprehensive Annual Financial Report (CAFR) of the State of Arizona for the fiscal year ended June 30, 2001. Responsibility for the accuracy of data, completeness and fairness of presentation, including all disclosures, rests with the State's management. The data presented in this report, to the best of our knowledge and belief, is accurate in all material respects and is reported in a manner which fairly presents the financial position and results of operations of the various funds and account groups of the State. All disclosures needed for the reader to gain a reasonable understanding of the State's financial activities have been included.

The report is presented in three sections: Introductory, Financial and Statistical.

- The **Introductory Section** includes this Letter of Transmittal, Financial Highlights, the State's organizational chart and a list of principal State officials.
- The **Financial Section** begins with the State Auditor General's Independent Auditors' report and contains the General Purpose Financial Statements, Combining Financial Statements by Fund Type and Account Group, and other schedules.
- The **Statistical Section** includes selected financial, economic, and demographic data.

FINANCIAL REPORTING ENTITY

The accompanying CAFR includes all funds and account groups of the State of Arizona (primary government), as well as its component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government.

The criteria for inclusion in the reporting entity and its presentation are defined by the Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standards Board, (Section 2100). Note 1.B of the Notes to the Financial Statements explains which units are included in the Financial Reporting Entity of the State.

ECONOMIC CONDITION AND OUTLOOK

The following economic summary, before the events of September 11, 2001, is excerpted from the Arizona Department of Economic Security's Arizona's Workforce, August 30, 2001.

Partly in response to the forecasted weak national growth, Arizona's Department of Economic Security, Research Administration's (RA) forecast update calls for Arizona's

economy to show moderate job growth through 2002. The RA forecasts 105,600 jobs will be added in the 2001-02 period as the economy slows to just below two percent annualized growth in 2001, and bouncing back to about three percent in 2002.

Arizona's goods-producing industries are projected to add slightly more than 11,000 jobs over the 2001-02 period, whereas service-producing industries should grow by better than 94,000. Mining and manufacturing industries are forecast to show annualized losses.

Arizona's manufacturing continues to grapple with the changing tide of investment shifts and slackened demand. Cost containment pressures have resulted in many highly publicized layoff announcements. Still, at the same time, growth is occurring in other areas. This is an important point to keep in mind. The RA is convinced that this economic slowdown will not advance to an all out collapse of the economy. In fact, our forecasts call for growth of 2,600 manufacturing jobs over the forecast horizon, with a slight loss of 300 factory jobs in 2001 and a return to growth of near 3,000 jobs in 2002.

Still, a shining star industry in Arizona, construction continues to look relatively strong through the forecast horizon. The RA forecasts call for the industry to show an increase of more than 9,000 new jobs over the forecast period. It appears quite likely that this industry will continue its slow descent rather than have a plummeting end to its long recent cycle, slowing to the low 3 percent range in 2001 and to 2.3 percent in 2002. Stimulating this growth over the forecast period is the continuing enticing mortgage financing rates and attractive home prices.

As well, reveling in the activities surrounding the housing markets, the finance, insurance and real estate industry is forecast to show an increase in its workforce. More than 6,000 new jobs are projected over the forecast horizon. While banks and investment firms are grappling with the downside pressures of a slowing economy, generally some of these pressures are offset by refinancing and continued moderately healthy purchasing activities.

While most trade sectors are projected to reduce growth through the forecast period, RA forecasts Arizona's trade will grow by 26,500 jobs in the 2001-02 period. Once again, as seems to be the general theme of this update forecast, a slowing is expected, from 3.2 percent in 2001 to just below 2 percent in 2002. A general weakness is expected in both wholesale and retail areas of trade, with improving economic conditions adding to employment strength in 2002.

Arizona's services industry, sharply off from the trends of recent history, is forecast to grow by just above one percent in 2001. But even this one-plus percent translates into forecast growth of nearly 33,000 jobs. The earlier double-digit job growth rates in the businesses services sector is expected to enter negative territory in 2001. Conventions and conferences, business functions and meetings have all dropped off and affected those in the industry. As a result, jobs in the services industries are expected to increase by less than 10,000 in 2001, and in sharp contrast to the gain of more than 39,000 in 2000. An improved gain of more than 23,000 is forecast for 2002. About the only part of this industry area showing any noticeable job strength in 2001 is that of agricultural services.

Mining and government job growth offers vastly different news in this forecast update. Each will continue its earlier trend, with government (driven mostly by education) showing modest three percent growth while mining continues its modest employment contraction.

If there is anything to be said about this update, it's that Arizona is clearly being affected by the slowing that was first seen nationally. Around the beginning of the second quarter 2001 it became much more evident that Arizona was increasingly integrated with the rest of the world. Nearly one year ago at this time, the metropolitan economies of Phoenix-Mesa and Tucson were experiencing seasonally adjusted rates of unemployment in the 2.5 percent range and finding it quite difficult to grow fast enough to meet demand. And that was only one of the simple pressures that arose out of a supercharged economy. While job growth has since slowed, layoff announcements have stolen much of our attention from the growth that is still taking place. The RA is convinced that there yet exists, in these times, many advantageous opportunities for both individuals and businesses, despite experiencing some difficulties with some of the adjustments occurring across the national and global economy.

MAJOR INITIATIVES

Tax Policy. Laws 2001, Chapter 235 enacted a conditional appropriations law that included tax relief and spending measures based on a tiered level of general fund revenue receipts. A base tax cut of $15 million was included. This measure was a standard deduction increase for individual filers who do not itemize. Revenues for FY 2001 did not exceed the first tier level and no appropriations or tax reductions were implemented. Due to the recent economic slowdown and a projected budget shortfall for FY 2002 and FY 2003, no conditional appropriations are expected to be triggered.

The other tax change relates to previous Truth in Taxation (TNT) provisions. Pursuant to the law, the qualifying tax rate is reduced annually to account for the statewide appreciation of existing property. The effect of reducing the qualifying tax rate is estimated to be $21.0 million in 2001 and $38.0 million in 2002.

Health and Welfare. Governor Hull is committed to improving access to health care and maximizing health care dollars. The implementation of the State Medicaid expansion as a result of the passage of Proposition 204 in November 2000 and the ever-growing commitment to behavioral health funding require significant financial resources. As a result, the State must pursue all opportunities to maximize federal resources and other funding opportunities to ensure the best level of health care services.

Proposition 204, which expands AHCCCS eligibility to 100% of the federal poverty level, began its first phase of implementation in April 2001. In January 2001, the Governor succeeded in negotiating with the Federal Health Care Finance Administration to secure a waiver that provides

federal matching funds of 65% for this population. The waiver allows the State to maximize the availability of State funds. However, the combination of federal funds and Tobacco Settlement funds are not expected to provide sufficient funding for all of the people that will receive AHCCCS coverage as a result of the passage of Proposition 204. The Budget Neutrality Compliance Fund (BNCF) was also established in the 2001 legislative session to supplement Tobacco Settlement funds. The BNCF consists of General Fund savings resulting from the ability to draw down federal funds for previously State-only funded populations.

With respect to behavioral health, Laws 2000, Fifth Special Session, Chapter 2 signed by Governor Hull established a $50 million Serious Mental Illness Fund for one-time expenditures to assist persons with serious mental illness and appropriated $20 million for children's behavioral health services, using Tobacco Settlement monies. Title XIX behavioral health expenditures increased by approximately $24.8 million, in State supplemental funding, of which $14.8 million was from the Medical Services Stabilization Fund.

In the area of welfare, during the 2001 legislative session, the legislature approved funding proposed in the Executive recommendation for additional child protective services (CPS) case managers. The 57 new FTE positions will allow the Department of Economic Security to maintain a ratio of one case manager for every fifteen children in out-of-home care. The total includes 34 CPS case managers and 7 human service workers. The legislature also approved the Executive recommendation for a CPS training academy that included 47 new FTE positions. Thirty-five of them will serve as a pool of employees who will be available to fill vacancies after the Department of Economic Security implements a 20-week training course for new CPS III staff. There is also an advanced skill building course for CPS staff for five days each year.

Education. In November 2000, Proposition 301 (the Governor's Education 2000 plan), the most significant education initiative since Students FIRST was passed by Arizona voters. Through a dedicated funding source consisting of $6/10^{th}$ of a percent increase of the transaction privilege tax, school districts and charter schools recognized additional funding for increased school days, school safety, character education, and school accountability programs including tutoring programs for failing schools. In addition, approximately $280.0 million in projected revenue is estimated for the Classroom Site fund, primarily intended to target teacher base and performance pay increases and supplementary funding for maintenance and operations of schools.

As part of Proposition 301, the voters also authorized up to $800.0 million in revenue bonding authority to cover the estimated $1.1 billion cost of correcting school building deficiencies as required by Students FIRST legislation. In May 2001, $500.0 million in 20-year Aaa bonds were issued to overwhelming investor response. The School Facilities Board anticipates that the remaining $300.0 million will be issued in the latter part of FY 2002.

In FY 2001, K-12 education continued to comprise the largest component of the State's budget:

Maintenance and Operations - In FY 2001, the State's obligation to fund public schools totaled $2.2 billion. In addition, $203.3 million was distributed through the Homeowner's Rebate Program and 1% constitutional cap (known as "Additional State Aid"), which subsidizes local property taxes assessed by school districts to support the local contribution for maintenance and operations of public schools. Aside from these entitlement programs, approximately $55.0 million in discretionary grants were allocated to Arizona public schools and $18.0 million in special education funding was distributed to public institutions such as the Arizona State Schools for the Deaf and the Blind and children housed in the Arizona State Hospital and residential placements.

School Renovation and Construction – Students FIRST required that all deficiencies in existing public school buildings (excluding public charter schools) be corrected prior to July 2003. To date, all school districts have received a physical assessment in which deficiencies have been identified and many of these projects are currently underway. In January 2001, the School Facilities Board requested a transfer of $150.0 million to address deficiencies projects for which the Board is expected to make payments in the coming fiscal year. This is in addition to the $500.0 million in bond proceeds received in June 2001. The school districts' building renewal allocation increased by $40.2 million from FY 2000 for a total of $122.7 million. The FY 2001 allocation for new school construction was $200.0 million and since the inception of the program in FY 1999, 41 projects (either additions to existing structures, new schools or replacement buildings) have been opened for use for Arizona's schoolchildren.

In addition to the K-12 component of Proposition 301, 15% of the revenue generated from the transaction privilege tax (after debt service on state school facilities revenue bonds) was dedicated to higher education. The Arizona Board of Regents received 12% to create the Technology and Research Initiative Fund. With this fund, the Board of Regents has the authority to distribute these monies to the universities for projects related to new economy initiatives. Up to 20% of the total revenues may be used for capital projects as well. For FY 2002, $2.5 million of this fund was distributed to ASU East and ASU West for lease-purchase costs associated with expanding their respective campuses.

The remaining 3% set aside for higher education has been allocated to the community college system to establish a Workforce Development Fund, which is designed to increase the ability of the colleges to offer courses related to workforce development and job-training skills. Beginning in FY 2002, the Workforce Development Fund provides $1.0 million each year for 13 consecutive years to provide State capital matching funds owed to qualifying districts pursuant to A.R.S. § 15-1463. Of the remaining amount collected each year, $200,000 will be distributed to each district, while the rest will be apportioned by district based on their respective audited full-time student equivalent (FTSE) counts.

Public Safety. The mission to "Protect and Serve" continues to be a priority of the Executive to ensure that government will have the resources necessary to provide for the safety of the citizens of Arizona. During the late 1990's,

the Department of Juvenile Corrections experienced vigorous growth of up to sixty percent per year in its juvenile delinquent population at secure care facilities. To accommodate the rapid growth, the State built and began operating a new 400-bed facility in Buckeye, the last 100 beds of which were opened in September 2000. However, population growth during FY 2001 declined slightly from an average monthly population of 967 to 930 juveniles.

County juvenile detention centers began increasing bed capacity in 2000 and will continue through 2003. The new construction is made possible with the assistance of State funding and will more than double the number of beds available, from 627 to 1,428.

The construction of the new prison complex, which the Legislature planned to locate in Tucson, was delayed due to slower than expected inmate population growth at the State prisons. Construction is expected to continue when the need for more space and beds warrants it. The Department of Corrections took advantage of the slower than expected inmate population growth and the availability of the new Lewis prison complex in Buckeye to close the Arizona Center for Women in downtown Phoenix. The Center was originally constructed as a motel in the 1950's and was converted in the late 1970's for use as a housing unit for low-risk female inmates. Also during FY 2001, the Perryville state prison was converted to house only females. Moving all females to one prison will improve the education, medical, and behavioral treatment for the inmates and will provide operational efficiencies.

With respect to the safety of our highways, the Department of Public Safety (DPS) continues to experience an increase in traffic and accidents on state highways. To handle some of the increases, DPS hired four additional officers and replaced 97 patrol cars and a helicopter in FY 2001.

Of additional interest, DNA testing was expanded in January 2001 to include all felons convicted of homicide or burglary. Testing all felons convicted of offenses involving the use of a deadly weapon or the infliction of serious physical injury begins in January 2002. To support this endeavor, $400,000 worth of new DNA equipment was purchased. Finally, DPS began a joint effort with the Attorney General to combat Internet crime, with an emphasis on sexual crimes and abuse involving minors.

SERVICES PROVIDED BY THE STATE

The services provided by the State are administered through various agencies, departments, boards, commissions and institutions of higher learning. These services include: (1) General Government, (2) Health and Welfare, (3) Inspection and Regulation, (4) Education, (5) Protection and Safety, (6) Transportation and (7) Natural Resources.

Table 1 **GENERAL GOVERNMENTAL REVENUES**
(Expressed in Thousands)

Revenue Source	Amount	Percent of Total	Increase / (Decrease) From 2000 Amount	Percent
Sales Taxes	$ 4,019,574	28.5%	$ 165,499	4.3%
Income Taxes	2,878,975	20.4	58,936	2.1
Motor Vehicle and Fuel Taxes	1,332,917	9.5	(27,200)	(2.0)
Property Taxes	47,987	0.4	(2,503)	(5.0)
Intergovernmental Revenues	4,411,598	31.3	435,579	11.0
Licenses, Fees and Permits	215,035	1.5	16,084	8.1
Earnings on Investments	196,671	1.4	28,917	17.2
Other Taxes and Revenues	986,409	7.0	111,061	12.7
Total	$14,089,166	100.0%	$ 786,373	5.9%

GENERAL GOVERNMENTAL FUNCTIONS

General Governmental activities are accounted for in four Governmental Fund types: (1) General Fund, (2) Special Revenue Funds, (3) Debt Service Funds and (4) Capital Project Funds.

General Governmental revenues totaled $14.09 billion for the fiscal year ended June 30, 2001, an increase of 5.9% over 2000.

Taxes, the single largest source of general governmental revenue, produced 62% of general governmental revenue. The amount of revenues from various sources and changes from last year are shown in Table 1.

The total revenue increase of $786.4 million or 5.9% was the result of several factors.

The 4.3% increase in Sales Taxes reflects the continuing population growth.

The 2.1% increase in Income Tax reflects the increase in job growth and corporate income tax collections.

The 2.0% decrease in Motor Vehicle and Fuel Taxes resulted from the reduction in consumer spending for new vehicles.

The 5.0% decrease in Property Taxes resulted from a reduction in property tax collections in the General Fund.

The 11.0% increase in Intergovernmental Revenues resulted from the increase in Federal funding for health and welfare programs.

The 8.1% increase in Licenses, Fees and Permits resulted from the increase in regulatory licensing and investigative activity related to all types of governmental operations.

The 17.2% increase in Earnings on Investments was the result of increased operating cash balances.

The 12.7% increase in Other Taxes and Revenues resulted primarily from the increase in insurance premium taxes and receipt of a final lump sum payment from a judgement related to an insurance bankruptcy.

Table 2 **GENERAL GOVERNMENTAL EXPENDITURES**
(Expressed in Thousands)

Expenditure Function	Amount	Percent of Total	Increase / (Decrease) From 2000 Amount	Percent
General Government	$ 1,673,490	12.3%	$ 173,004	11.5%
Health and Welfare	4,908,915	36.0	543,910	12.5
Inspection and Regulation	114,559	0.8	1,609	1.4
Education	3,470,698	25.5	284,212	8.9
Protection and Safety	853,514	6.3	9,060	1.1
Transportation	1,829,350	13.4	17,393	1.0
Natural Resources	115,396	0.9	15,822	15.9
Capital Outlay	338,409	2.5	36,659	12.1
Debt Service	318,705	2.3	34,983	12.3
Total	$ 13,623,036	100.0%	$1,116,652	8.9%

General Governmental expenditures totaled $13.62 billion for the fiscal year ended June 30, 2001, an increase of 8.9% over 2000. State Government expenditures and the changes from last year are shown in Table 2.

The total expenditures increase of $1.117 billion or 8.9% was the result of the factors described below.

The 11.5% increase in General Government expenditures resulted primarily from the increase in the cost of operating State government and the increase in intergovernmental revenue sharing. These amounts are recorded as General Government expenditures on the State's financial statements.

The 12.5% increase in Health and Welfare expenditures resulted primarily from an increase in expenditures related to the Arizona Department of Economic Security and the Arizona Health Care Cost Containment System programs. In addition, there was an increase in the expenditures related to the Tobacco Tax funded programs.

The 8.9% increase in Education expenditures resulted from additional funding for increased student growth and increased Basic State Aid to public and charter schools.

The 15.9% increase in Natural Resources expenditures resulted primarily from increased funding for parks and recreation services.

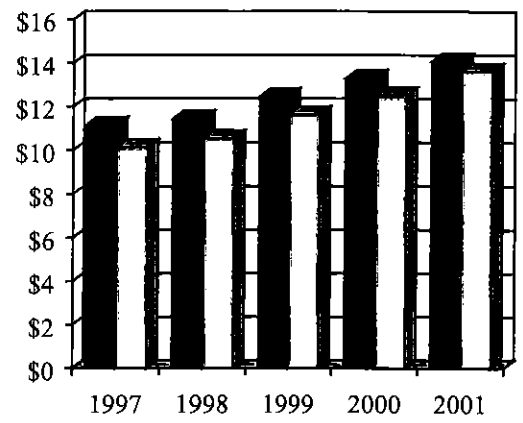
The 12.1% increase in Capital Outlay expenditures resulted primarily from the increase in expenditures for construction of Federal, state, and local highways.

The 12.3% increase in Debt Service expenditures resulted primarily from the increase in principal payments for revenue bonds used for construction of highways inside of Maricopa County.

Graph 1 details the General Governmental Revenues and Expenditures for the last five fiscal years:

Graph 1

General Governmental Revenues and Expenditures
for last 5 fiscal years
(Dollars in billions)

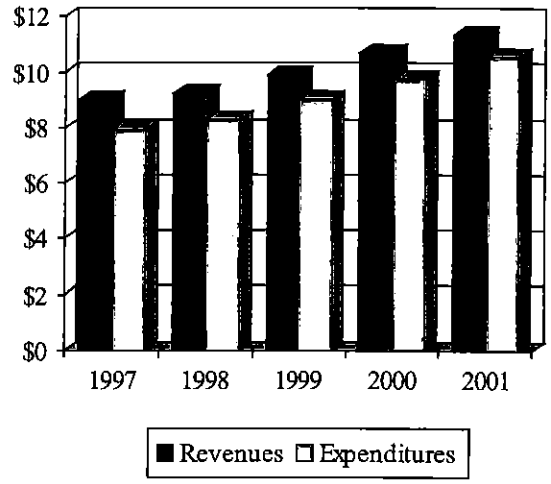


GENERAL FUND BALANCE

Graph 2 details the General Fund Revenues and Expenditures for the last five fiscal years. This graph does not include operating transfer amounts relating to other fund types and other financing sources (uses), which affect the ending fund balance.

Graph 2

General Fund Revenues and Expenditures
for last 5 fiscal years
(Dollars in billions)

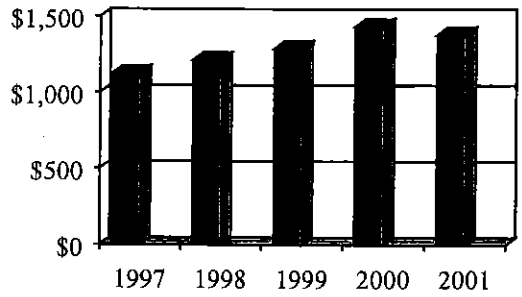


The General Fund ended the June 30, 2001, fiscal year with $912 million in unreserved fund balance and a $468 million reserved fund balance for a total fund balance of $1.380 billion. This compares to the previous year total fund balance of $1.435 billion. Included in the $468 million reserved fund balance is $373 million for the Budget Stabilization Fund. The Budget Stabilization Fund is a form of "Rainy Day Fund" established by the Legislature in 1991.

Graph 3 details the General Fund Balance for the last five fiscal years:

Graph 3

General Fund Balance for last 5 fiscal years
(Dollars in millions)



BUDGETARY CONTROLS

Budgetary control is maintained through legislative appropriation and the executive branch allotment process. The Governor is required to submit a biennial budget to the Legislature. The budget is legally required to be adopted through passage of appropriation bills by the Legislature and approval by the Governor. The appropriated funds are controlled by the executive branch through an allotment process. This process allocates the appropriation into quarterly allotments by legal appropriation level. The State also maintains an encumbrance accounting system to further enhance budgetary control. Encumbered amounts generally lapse as of the end of the fiscal year, with the exception of capital outlay items. Capital outlay appropriations and their encumbrances continue from year to year.

The State's budgetary policies and procedures, fund accounting structure and basis of accounting are explained in detail in Note 1. of the Notes to the Financial Statements.

INTERNAL CONTROLS

The State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. In the opinion of management, the State's internal controls are adequate to provide reasonable assurance that these objectives are met.

CASH MANAGEMENT

The responsibility for cash management of the State is shared by the Office of the Treasurer (Treasurer) and the General Accounting Office of the Department of Administration, Financial Services Division (GAO). The Treasurer is responsible for the depository, custodial and investment functions of cash. The GAO is responsible for drawing down monies available for State functions and the expenditure or disbursement of those monies.

The State requires that Treasurer's deposits and investments with financial institutions be entirely covered by Federal depository insurance or alternatively collateralized with surety equal to 102% of the deposit or investment. Component units may have collateralization policies that differ from those of the Treasurer.

The Legislature has passed statutes authorizing State investments. Note 3.A. in the Notes to the Financial Statements describes the types of investments made by the State.

The Treasurer deposits receipts in accordance with applicable statutes and invests excess cash of the General Fund and various other funds. All interest, not otherwise apportioned by law, is deposited in the General Fund. Investment earnings for the General Fund totaled $114.4 million for the fiscal year ended June 30, 2001.

PROPRIETARY OPERATIONS

The State's Enterprise Funds are comprised of governmental and quasi-governmental agencies that provide goods and services to the public on a fee for service basis. One of the largest Enterprise Funds is the Lottery Fund. The Lottery Fund generated $274.0 million of operating revenues and $46.1 million of income before contributions and transfers for fiscal year 2001. The Enterprise Funds ended fiscal year 2001 with a combined equity of $140.8 million for the Primary Government and $594.9 million for the Component Units. This includes the State Compensation Fund's Policyholders' Surplus of $497.7 million.

The State has Internal Service Funds which provide a variety of services to State agencies. These include risk management, computer services, telecommunications, transportation services, printing services and other services. The operating revenues for the Internal Service Funds were $162.0 million for fiscal year 2001.

TRUST AND AGENCY FUNDS

Trust and Agency Funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations and other governments, including the four State Retirement Systems. The Trust and Agency Funds for the Primary Government reported a year-end equity of $32.99 billion as compared to the previous year end of $35.54 billion. See Note 7. in the Notes to the Financial Statements for more information on the four State Retirement Systems. The Fiduciary Fund Type Component Unit reported a year-end equity of $204.3 million.

DEBT ADMINISTRATION

The Arizona Constitution, under Article 9 Section 5, provides that the State may contract debts not to exceed $350,000. This provision has been interpreted to restrict the State from pledging its credit as a sole payment for debts incurred for the operation of State government. As a result, the State, including the Enterprise Funds and the University Funds, finances most of its major capital needs by lease purchase transactions and issuing revenue bonds and grant anticipation notes. Lease purchase transactions are funded by Certificates of Participation (COPs). Revenue bonds and grant anticipation notes are funded by dedicated revenue sources.

The State first issued COPs in 1984 to acquire and construct a building for the Industrial Commission. Since that time, additional issues have been transacted for the construction and purchase of buildings and other structures, as well as telecommunication systems for two of the Universities. The State issued COPs during fiscal year 1992 which provide for the sale and leaseback of prison facilities in Florence, Arizona. The proceeds were used to reimburse the General Fund for the expenditures incurred in purchasing the ENSCO Hazardous Waste Facility. In all cases, the Attorney General determined that the issuance of the COPs was in accordance with the provisions of the Constitution.

The State issued $60.1 million new COPs and retired $22.3 million during the fiscal year ended June 30, 2001. The State had $431.4 million in COPs outstanding at year end. Principal and interest are covered by lease payments out of current revenues or appropriations from the fund responsible for utilization of the specific buildings.

The State has issued revenue bonds primarily to finance the construction of highways. They have also been issued for the construction of buildings and other facilities. The State's senior lien highway revenue bonds currently carry an AAA/Aa1 rating from Standard and Poor's Rating Service and Moody's Investor Service, Inc., respectively. The State issued $739.5 million of revenue bonds and retired $242.7 million during the fiscal year ended June 30, 2001. The State had $2.690 billion in bonds outstanding at year-end, an increase of $501.4 million from fiscal year 2000. This increase was primarily the result of the School Facilities Board offering their initial bond issue for school repairs. The Arizona Department of Transportation Highway

Revenue Bonds accounted for $1.390 billion of the total bonds outstanding.

The grant anticipation notes are an innovative financing mechanism secured by revenues received from the Federal Highway Administration under a grant agreement and certain other Federal-Aid revenues. The State has issued $182.3 million in grant anticipation notes to help pay for costs of acquiring right-of-way for design and construction of certain controlled-access highways within Maricopa County.

See Note 9.A., 9.B. and 9.C. in the Notes to the Financial Statements for additional information on revenue bonds, grant anticipation notes and COPs.

RISK MANAGEMENT

The State purchases property and liability coverage whenever available on reasonable terms. The State is insured by an approved property insurer for claims in excess of $100 thousand but less than $600 million and liability claims in excess of $1 million for the Universities and $5 million for all other state agencies but less than $105 million. The State also maintains an excess workers' compensation policy for claims in excess of $1 million and first dollar aircraft coverage up to $200 million. Other purchased coverages include fidelity, crop, foreign liability, workers' compensation and medical malpractice. The State's self-insurance fund provides property and liability coverage for claims less than or in excess of this coverage or whenever coverage is unavailable on reasonable terms.

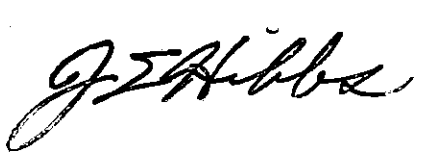
The State pays self-insurance losses from a fund to which monies are appropriated each year by the Legislature. Monies remaining at the end of a fiscal year carry over to the next fiscal year, but are part of the appropriation made for that fiscal year to pay expected losses and costs. Self-insurance losses and claims-related expenses (excluding the cost of administering the program) have risen from approximately $15.3 million in fiscal year 1988 to approximately $100.8 million in fiscal year 2001. Yearly appropriations have also increased from approximately $27.7 million in fiscal year 1988 to approximately $75.7 million in fiscal year 2001 to meet such rising losses and claims-related expenses. Although there are no assurances, historically the Legislature has appropriated sufficient funds to cover all costs.

INDEPENDENT AUDIT

In compliance with State statute, an annual financial audit of the "State Entity" is completed each year by the State of Arizona, Office of the Auditor General in conjunction with other audit firms. Their audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Their report on the general purpose financial statements has been included in the financial section of this report. In addition, ARS §41-1279.03 requires at least a biennial single audit by the Office of the Auditor General. The Single Audit will be issued as a separate report at a later date.

ACKNOWLEDGMENTS

We wish to express our sincere appreciation to the many individuals whose dedicated efforts have made this report possible. The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each State agency, board, commission, institution of higher education and all other organizations within the reporting entity.

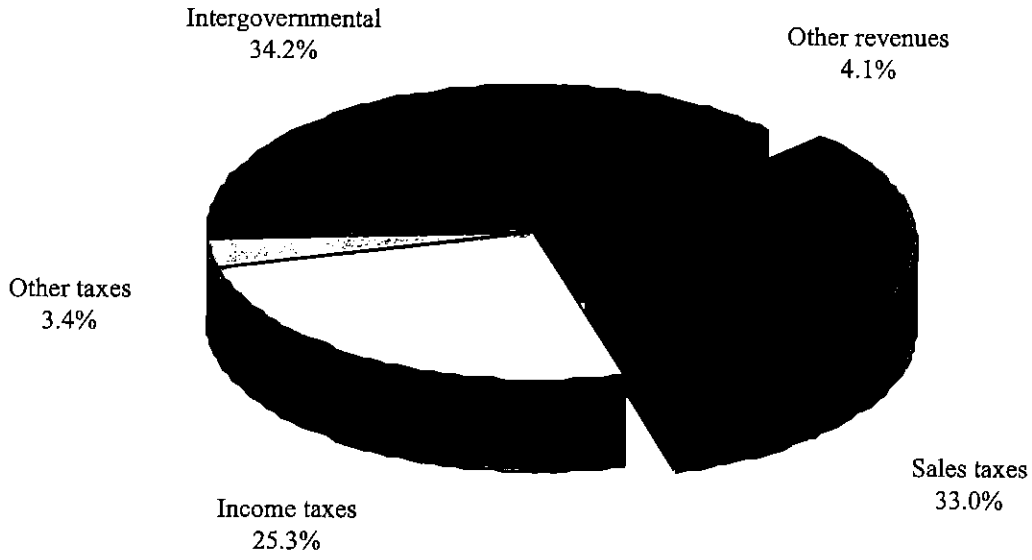


J. Elliott Hibbs
Director

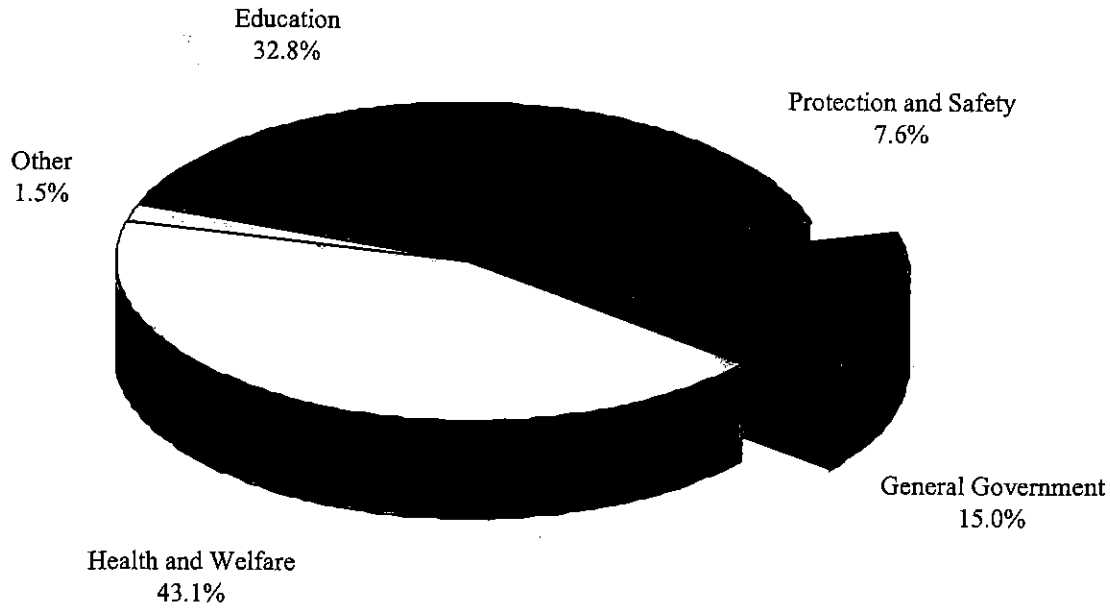
Robert Rocha
State Comptroller

STATE OF ARIZONA
GRAPHIC PRESENTATION OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2001

Revenues by Source

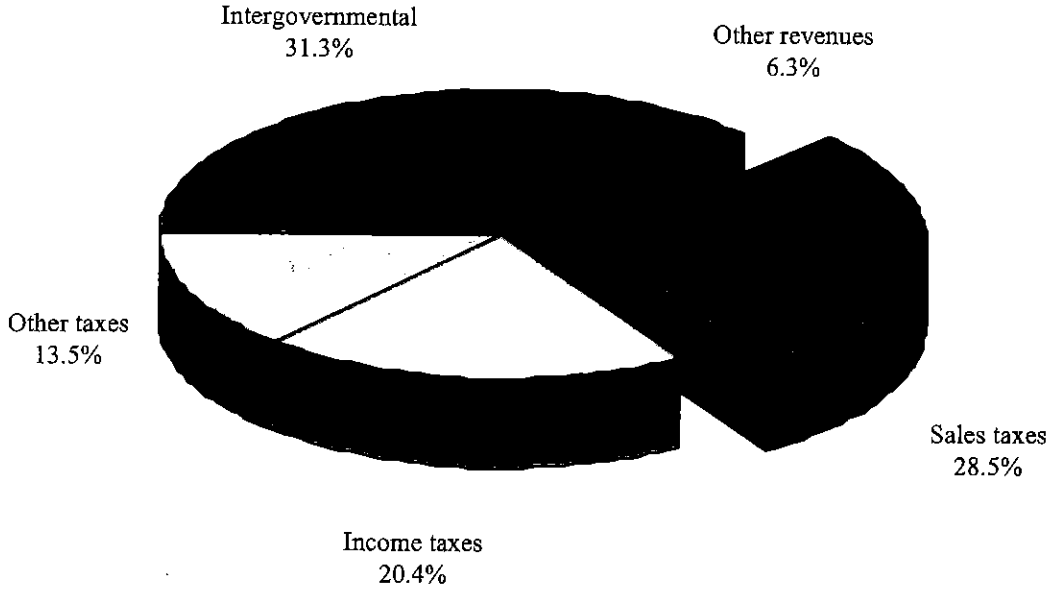


Expenditures by Function

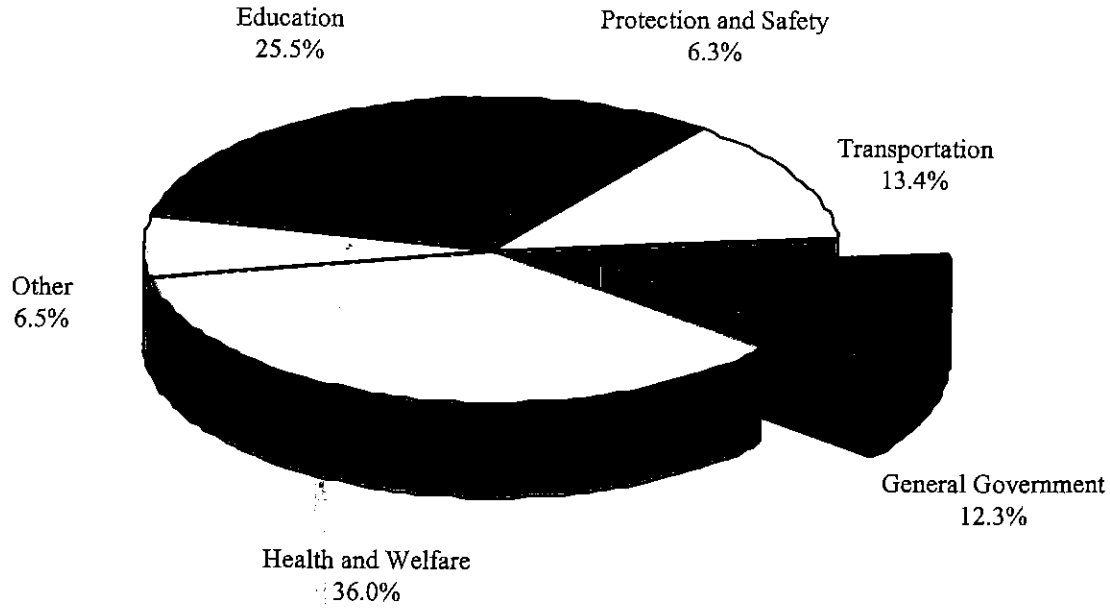


STATE OF ARIZONA
GRAPHIC PRESENTATION OF REVENUES BY SOURCE
AND EXPENDITURES BY FUNCTION
GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED JUNE 30, 2001

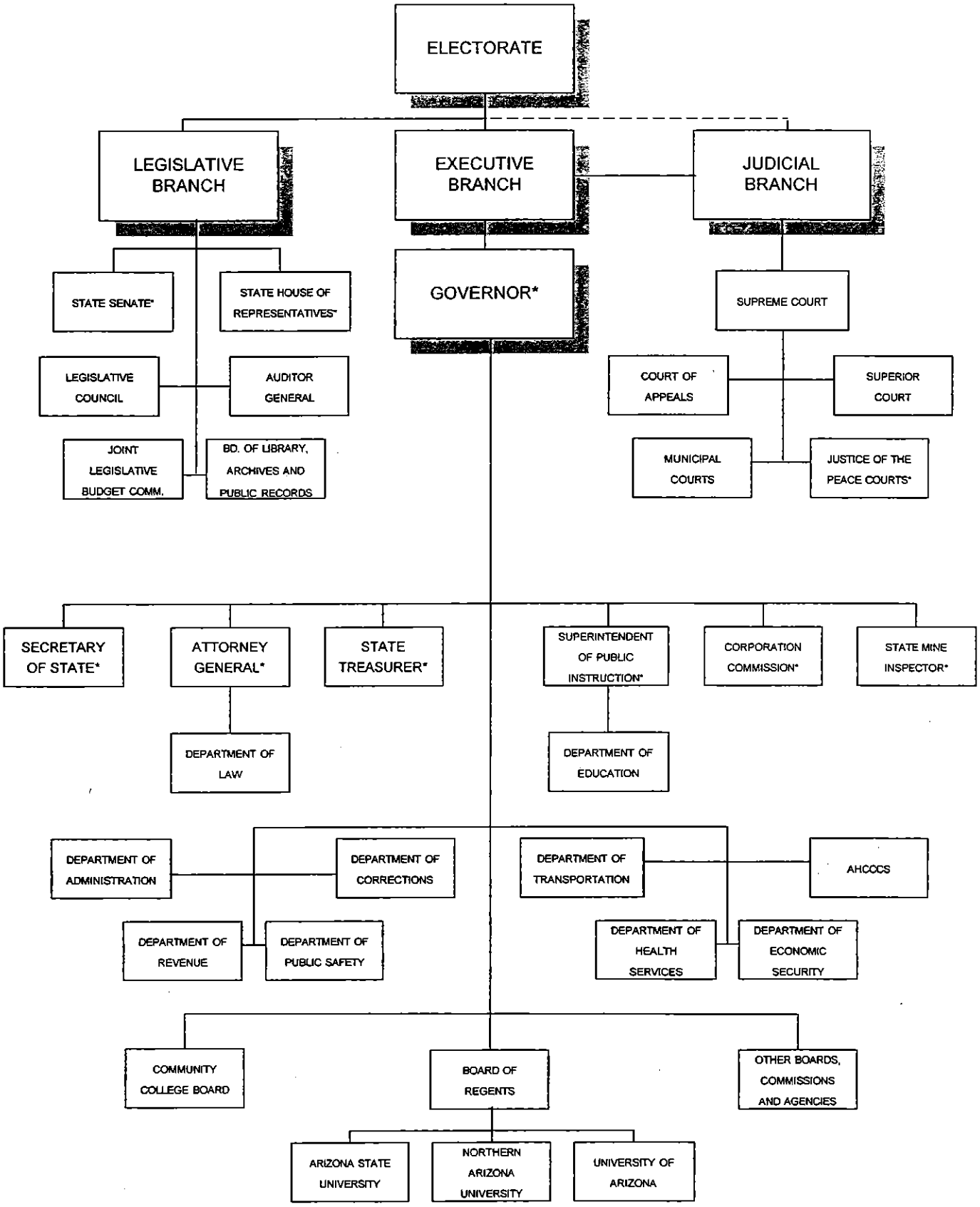
Revenues by Source



Expenditures by Function



ARIZONA STATE GOVERNMENT ORGANIZATION



* ELECTED OFFICIALS

STATE OF ARIZONA
PRINCIPAL STATE OFFICIALS
JUNE 30, 2001

ELECTED OFFICIALS

Jane Dee Hull, Governor

Senator Randall Gnant, President of the Senate

Representative Jim Weiers, Speaker of the House

Thomas A. Zlaket, Chief Justice

Betsey Bayless, Secretary of State

Janet Napolitano, Attorney General

Carol Springer, State Treasurer

Jaime A. Molera, Superintendent of Public Instruction

William A. Mundell, Chairman - Corporation Commission

Marc Spitzer, Commissioner - Corporation Commission

Jim Irvin, Commissioner - Corporation Commission

Douglas K. Martin, State Mine Inspector

APPOINTED OFFICIALS

Executive Officials

J. Elliott Hibbs, Director - Department of Administration

Terry L. Stewart, Director - Department of Corrections

John L. Clayton, Director - Department of Economic Security

Mark Killian, Director - Department of Revenue

Dennis A. Garrett, Director - Department of Public Safety

Catherine R. Eden, Ph.D., Director - Department of Health Services

Phyllis Biedess, Director - Arizona Health Care Cost Containment System

Mary Peters, Director - Department of Transportation

Legislative Officials

Michael E. Braun, Executive Director - Legislative Council

Richard Stavneak, Director - Joint Legislative Budget Committee

Debra K. Davenport, CPA, Auditor General

Gladys Ann Wells, Director - Board of Library, Archives and Public Records

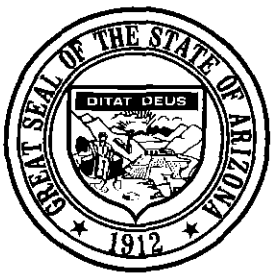
University Officials

Lattie F. Coor, Ph.D., President - Arizona State University

Clara M. Lovett, President - Northern Arizona University

Peter Likins, President - University of Arizona

Financial Section



Desert Bluebell

The desert bluebell (Phacelia campanularia), a spring-time annual wildflower, lives just one year and grows quickly, blooming very early.

INDEPENDENT AUDITORS' REPORT

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

The Honorable Jane Dee Hull, Governor
State of Arizona

The Honorable Randall R. Gnant, President
Arizona State Senate

The Honorable Jim Weiers, Speaker
Arizona House of Representatives

The Honorable Thomas A. Zlaket, Chief Justice
Arizona Supreme Court

We have audited the accompanying general purpose financial statements of the State of Arizona as of and for the year ended June 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain departments and component units included in the general purpose financial statements of the State of Arizona, which account for the following percentages of the assets, general long-term debt (GLTD), and revenues and other financing sources of the fund type, account group, or discretely presented component unit affected.

Fund Type/Account Group/Component Unit	Assets/ GLTD	Revenues and Other Financing Sources	Department/Component Unit
General	10%	15%	Arizona Health Care Cost Containment System
Special Revenue	6%	5%	Arizona Health Care Cost Containment System
	41%	64%	Department of Transportation
Debt Service	87%	92%	Department of Transportation
Capital Projects	69%	88%	Department of Transportation

Fund Type/Account Group/Component Unit	Assets/ GLTD	Revenues and Other Financing Sources	Department/Component Unit
Enterprise	2%	7%	Arizona Health Care Cost Containment System
	1%	.4%	ComCare, Inc.
	2%	3%	Department of Transportation
	11%	70%	Lottery
Internal Service	34%	19%	Department of Transportation
Trust and Agency	2%	1%	Corrections Officer Retirement Plan
	1%	.3%	Elected Officials Retirement Plan
	14%	4%	Public Safety Personnel Retirement System
	59%	15%	Arizona State Retirement System
General Fixed Assets	12%	N/A	Department of Transportation
General Long-Term Debt	66%	N/A	Department of Transportation
Proprietary Fund Type Component Units	2%	3%	Arizona Power Authority
	8%	39%	University Medical Center
	90%	58%	State Compensation Fund
Fiduciary Fund Type Component Unit	100%	100%	Water Infrastructure Finance Authority

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the amounts included for those entities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Public Safety Personnel Retirement System, Elected Officials Retirement Plan, and Corrections Officer Retirement Plan, included in the Trust and Agency Funds; and the University Medical Center, Arizona Power Authority, and State Compensation Fund, included in the Proprietary Fund Type Component Units were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Arizona as of June 30, 2001, and the results of its operations, the cash flows of its proprietary and similar trust funds and component units, the changes in plan net assets of its pension trust funds, the changes in pool net assets of its investment trust funds, the changes in fund balances of its university funds, and the current operating funds revenues, expenditures, and other changes of its university funds for the year then ended in conformity with U.S. generally accepted accounting principles.

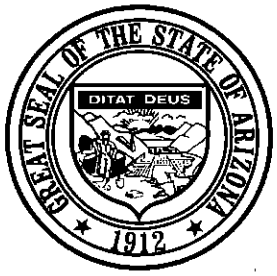
Our audit was made for the purpose of forming an opinion on the general purpose financial statements of the State of Arizona taken as a whole. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants at a future date. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Debbie Davenport
Auditor General

December 14, 2001



Lady Finger Cactus

The lady finger cactus (Echinocereus pentalophus), a summer bloomer, has a profusion of magenta flowers with paler yellow throats, for a short period in the spring.

General Purpose Financial Statements

STATE OF ARIZONA
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2001
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY
ASSETS AND OTHER DEBITS							
Assets:							
Cash and investments	$ 1,294,060	$ 1,691,637	$ 21,385	$ 390,905	$ 315,393	$ 60,662	$ 39,145,474
Cash held by trustee	-	-	-	-	-	-	-
Investments held by trustee	-	-	-	-	-	-	-
Receivables, net of allowances:							
Taxes	607,166	82,697	-	2,076	-	-	39,168
Interest	4,887	5,689	1,813	1,904	2,818	59	133,030
Other	32,791	51,129	1	3	7,417	5,430	311,184
Reinsurance recoverables	-	-	-	-	-	-	-
Due from U.S. Government	217,840	56,730	-	-	119	-	-
Due from local governments	774	1,636	-	-	-	534	-
Due from others	-	-	-	-	-	-	1
Due from other Funds	116,314	198,922	-	583	1	3,641	20,429
Inventory of food stamps	281	-	-	-	-	-	-
Inventories, at cost	7,186	6,449	-	-	9,600	3,034	70
Other	319	-	-	-	7,448	5,894	1,740
Fixed assets:							
Property and equipment	-	-	-	-	85,712	195,535	14,752
Less: accumulated depreciation	-	-	-	-	(42,662)	(117,603)	(1,699)
Total Assets	2,281,618	2,094,889	23,199	395,471	385,846	157,186	39,664,149
Other Debits:							
Amount available for retirement of long-term debt	-	-	-	-	-	-	-
Amount to be provided for retirement of long-term debt	-	-	-	-	-	-	-
Total Assets and Other Debits	$ 2,281,618	$ 2,094,889	$ 23,199	$ 395,471	$ 385,846	$ 157,186	$ 39,664,149

The Notes to the Financial Statements are an integral part of this statement.

ACCOUNT GROUPS					COMPONENT UNITS	
GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	UNIVERSITY	TOTAL (MEMORANDUM ONLY) PRIMARY GOVERNMENT	PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ -	$ -	$ 696,706	$ 43,616,222	$ 2,641,424	$ 46,257,646
-	-	60,447	60,447	-	60,447
-	-	-	-	29,756	29,756
-	-	-	731,107	-	731,107
-	-	-	150,200	22,646	172,846
-	-	118,339	526,294	288,423	814,717
-	-	-	-	43,148	43,148
-	-	-	274,689	-	274,689
-	-	-	2,944	-	2,944
-	-	-	1	-	1
-	-	2,799	342,689	-	342,689
-	-	-	281	-	281
-	-	15,204	41,543	8,716	50,259
-	-	8,364	23,765	70,887	94,652
1,895,189	-	3,439,592	5,630,780	334,372	5,965,152
-	-	-	(161,964)	(193,370)	(355,334)
1,895,189	-	4,341,451	51,238,998	3,246,002	54,485,000
-	22,922	-	22,922	-	22,922
-	2,381,092	-	2,381,092	-	2,381,092
$ 1,895,189	$ 2,404,014	$ 4,341,451	$ 53,643,012	$ 3,246,002	$ 56,889,014

(Continued)

STATE OF ARIZONA
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUPS AND
DISCRETELY PRESENTED COMPONENT UNITS
JUNE 30, 2001
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	ENTERPRISE	INTERNAL SERVICE	TRUST AND AGENCY
LIABILITIES AND FUND EQUITY AND OTHER CREDITS							
Liabilities:							
Accounts payable	$ 193,797	$ 143,735	$ -	$ 22,729	$ 9,903	$ 9,849	$ 44,080
Accrued liabilities	181,752	15,573	277	113	1,591	1,381	33,517
Obligations under securities loan agreements	-	-	-	-	34,778	-	3,104,021
Tax refunds payable	194	-	-	-	-	-	-
Due to U.S. Government	2,084	498	-	-	-	-	-
Due to local governments	144,132	100,706	-	-	2,708	7	19,122
Due to others	74,439	306	-	-	163	-	75,464
Due to other Funds	53,778	247,395	-	13	7,525	626	30,553
Deferred revenue	200,297	3,335	-	-	7,813	4	34,049
Notes payable	-	7,529	-	-	-	-	-
Accrued compensated absences	-	-	-	-	897	1,065	-
Accrued insurance losses	-	-	-	-	150,470	233,677	-
Revenue bonds	-	-	-	-	-	-	-
Grant anticipation notes	-	-	-	-	-	-	-
Certificates of participation	-	-	-	-	8,700	-	-
Leases and installment purchases	-	-	-	-	-	7,491	-
NCCI assigned risk pool liability	-	-	-	-	-	-	-
Policyholders' dividends	-	-	-	-	-	-	-
Other	50,781	2,781	-	3	20,460	8	3,333,736
Total Liabilities	901,254	521,858	277	22,858	245,008	254,108	6,674,542
Fund Equity and Other Credits:							
Net investment in fixed assets	-	-	-	-	-	-	-
Policyholders' surplus	-	-	-	-	-	-	-
Contributed capital	-	-	-	-	5,655	26,708	-
Retained earnings (deficits):							
Reserved	-	-	-	-	6,546	1,004	-
Unreserved	-	-	-	-	128,637	(124,634)	-
Fund balances:							
Reserved	467,941	833,269	22,922	327,724	-	-	32,989,607
Restricted	-	-	-	-	-	-	-
Unreserved	912,423	739,762	-	44,889	-	-	-
Total Fund Equity and Other Credits	1,380,364	1,573,031	22,922	372,613	140,838	(96,922)	32,989,607
Total Liabilities and Fund Equity and Other Credits	$ 2,281,618	$ 2,094,889	$ 23,199	$ 395,471	$ 385,846	$ 157,186	$ 39,664,149

The Notes to the Financial Statements are an integral part of this statement.

ACCOUNT GROUPS					COMPONENT UNITS	
GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	UNIVERSITY	TOTAL (MEMORANDUM ONLY) PRIMARY GOVERNMENT	PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ -	$ -	$ 61,979	$ 486,072	$ 13,702	$ 499,774
-	-	14,471	248,675	18,815	267,490
-	-	-	3,138,799	254,323	3,393,122
-	-	-	194	-	194
-	-	-	2,582	-	2,582
-	-	-	266,675	-	266,675
-	-	-	150,372	-	150,372
-	-	2,799	342,689	-	342,689
-	-	154,100	399,598	36,483	436,081
-	-	-	7,529	-	7,529
-	162,295	-	164,257	3,161	167,418
-	-	-	384,147	1,779,516	2,163,663
-	1,872,017	540,019	2,412,036	278,249	2,690,285
-	182,295	-	182,295	-	182,295
-	168,258	236,234	413,192	-	413,192
-	19,149	30,893	57,533	-	57,533
-	-	-	-	22,058	22,058
-	-	-	-	13,750	13,750
-	-	54,327	3,462,096	26,792	3,488,888
-	2,404,014	1,094,822	12,118,741	2,446,849	14,565,590
1,895,189	-	2,647,807	4,542,996	-	4,542,996
-	-	-	-	497,723	497,723
-	-	-	32,363	138,573	170,936
-	-	-	7,550	6,635	14,185
-	-	-	4,003	156,222	160,225
-	-	-	34,641,463	-	34,641,463
-	-	308,997	308,997	-	308,997
-	-	289,825	1,986,899	-	1,986,899
1,895,189	-	3,246,629	41,524,271	799,153	42,323,424
$ 1,895,189	$ 2,404,014	$ 4,341,451	$ 53,643,012	$ 3,246,002	$ 56,889,014

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	GOVERNMENTAL FUND TYPES				FIDUCIARY FUND TYPE
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS	EXPENDABLE TRUST
REVENUES					
Taxes:					
Sales	$ 3,746,797	$ 272,777	$ -	$ -	$ -
Income	2,878,975	-	-	-	36
Motor vehicle and fuel	11,061	1,313,213	-	8,643	-
Property	45,792	2,014	-	181	-
Unemployment	-	-	-	-	175,733
Other	327,835	155,277	-	25,387	-
Intergovernmental	3,888,436	523,162	-	-	10,342
Licenses, fees and permits	61,758	150,727	-	2,550	6,028
Earnings on investments	114,394	60,132	9,653	12,492	69,729
Sales and charges for services	30,000	43,681	-	4,671	332
Fines, forfeitures and penalties	15,799	68,347	-	-	3,474
Other	244,996	70,416	-	-	81,605
Total Revenues	11,365,843	2,659,746	9,653	53,924	347,279
EXPENDITURES					
Current:					
General government	1,583,590	89,900	-	-	296,558
Health and welfare	4,557,006	351,909	-	-	222,511
Inspection and regulation	43,946	70,613	-	-	5,084
Education	3,464,620	6,078	-	-	2,307
Protection and safety	799,110	54,404	-	-	1,907
Transportation	75	1,829,159	116	-	-
Natural resources	36,666	78,730	-	-	1,336
Capital outlay	80,076	17,571	-	240,762	1,012
Debt service:					
Principal	4,238	198	222,905	-	67
Interest and other fiscal charges	1,362	8	89,994	-	-
Total Expenditures	10,570,689	2,498,570	313,015	240,762	530,782
Revenues Over (Under) Expenditures	795,154	161,176	(303,362)	(186,838)	(183,503)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	219,456	229,039	304,951	20,400	215,980
Operating transfers in from component units	-	-	-	-	54
Operating transfers out	(1,085,741)	(519,962)	(1,687)	(43,267)	(4,876)
Capital lease and installment purchase contracts	7,974	1,057	-	-	-
Proceeds of refunding bonds	-	-	1	-	-
Proceeds from sale of bonds	-	501,005	-	266,585	-
Proceeds from sale of grant anticipation notes	-	-	-	187,796	-
Total Other Financing Sources (Uses)	(858,311)	211,139	303,265	431,514	211,158
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(63,157)	372,315	(97)	244,676	27,655
Beginning Fund Balances, as restated	1,434,927	1,203,027	23,019	127,937	1,111,158
Residual Equity Transfers	8,594	(2,311)	-	-	7,000
Ending Fund Balances	$ 1,380,364	$ 1,573,031	$ 22,922	$ 372,613	$ 1,145,813

The Notes to the Financial Statements are an integral part of this statement.

	TOTAL (MEMORANDUM ONLY)
$	4,019,574
	2,879,011
	1,332,917
	47,987
	175,733
	508,499
	4,421,940
	221,063
	266,400
	78,684
	87,620
	397,017
	14,436,445
	1,970,048
	5,131,426
	119,643
	3,473,005
	855,421
	1,829,350
	116,732
	339,421
	227,408
	91,364
	14,153,818
	282,627
	989,826
	54
	(1,655,533)
	9,031
	1
	767,590
	187,796
	298,765
	581,392
	3,900,068
	13,283
$	4,494,743

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	GENERAL FUND		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
REVENUES			
Taxes:			
Sales	$ -	$ 2,982,051	$ -
Income	-	2,445,472	-
Property	-	45,793	-
Luxury	-	65,569	-
Insurance premium	-	183,732	-
Motor vehicle and fuel	-	477	-
Estate	-	74,652	-
Other taxes	-	684	-
Non-Tax Revenues:			
Lottery proceeds	-	21,000	-
Disproportionate share, net	-	39,907	-
Intergovernmental	-	-	-
Earnings on investments	-	89,926	-
Licenses, fees, sales, permits and other revenues	-	155,018	-
Total Revenues	-	6,104,281	-
EXPENDITURES			
General Government			
Department of Administration	45,815	43,681	2,134
Department of Administration-Capital Outlay	18,199	14,722	3,477
Office of Administrative Hearings	1,218	1,212	6
Attorney General	26,872	26,444	428
Department of Commerce	8,679	6,188	2,491
State Board of Equalization	623	549	74
Government Information Technology	142	142	-
Governor	10,746	9,453	1,293
Independent Redistricting Commission	6,000	246	5,754
Superior Court	125,431	123,813	1,618
Supreme Court	17,193	16,741	452
Supreme Court-Capital Outlay	2,531	2,519	12
Court of Appeals	10,494	10,475	19
Senate	11,611	7,037	4,574
House of Representatives	11,416	9,972	1,444
Auditor General	11,446	10,411	1,035
Joint Legislative Budget Committee	3,154	2,126	1,028
Legislative Council	6,044	4,156	1,888
Legislative Council-Capital Outlay	95	95	-
Arizona State Library, Archives and Public Records	7,473	7,194	279
Personnel Board	403	306	97
Retirement System	4,788	4,210	578

The Notes to the Financial Statements are an integral part of this statement.

SPECIAL REVENUE FUNDS		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
$ -	$ 7,554	$ -
-	-	-
-	9,410	-
-	118,771	-
-	22,672	-
-	879,748	-
-	-	-
-	7,493	-
-	-	-
-	-	-
-	391,270	-
-	47,659	-
-	582,615	-
-	2,067,192	-
44,983	4,130	40,853
-	-	-
884	852	32
25,548	21,556	3,992
7,796	2,872	4,924
-	-	-
-	-	-
548	83	465
-	-	-
15,181	7,576	7,605
2,925	2,262	663
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-

(Continued)

STATE OF ARIZONA

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2001

(Expressed in Thousands)

	GENERAL FUND		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
Department of Revenue	59,334	58,777	557
Secretary of State	6,087	5,420	667
Tax Appeals Board	309	255	54
Office of Tourism	8,915	8,903	12
State Treasurer	29,058	28,514	544
Uniform State Law Commission	36	35	1
Total General Government	434,112	403,596	30,516
Health and Welfare			
AHCCCS	519,716	514,945	4,771
Commission for the Deaf and Hard of Hearing	-	-	-
Department of Economic Security	444,354	434,742	9,612
Department of Economic Security-Capital Outlay	1,270	853	417
Department of Environmental Quality	17,866	16,846	1,020
Department of Health Services	259,497	250,726	8,771
Department of Health Services-Capital Outlay	391	286	105
Indian Affairs Commission	237	236	1
Pioneer's Home	2,724	2,694	30
Pioneer's Home-Capital Outlay	4	-	4
Rangers Pension	12	12	-
Department of Veterans' Services	1,760	1,712	48
Department of Veterans' Services-Capital Outlay	195	195	-
Total Health and Welfare	1,248,026	1,223,247	24,779
Inspection and Regulation			
Department of Agriculture	12,620	12,388	232
Board of Athletic Training	60	36	24
Banking Department	2,812	2,679	133
Boxing Commission	77	76	1
Department of Building and Fire Safety	3,650	3,450	200
Corporation Commission	6,526	6,097	429
Insurance Department	6,001	5,623	378
Liquor Licenses and Control	2,457	2,439	18
Mine Inspector	1,156	1,146	10
State Board of Nursing	204	114	90
Occupational Safety and Health	18	6	12
Racing Department	2,706	2,557	149
Radiation Regulatory	1,689	1,656	33
Real Estate Department	3,222	3,113	109
Weights and Measures	1,796	1,764	32
Board of Accountancy	-	-	-
Acupuncture Board of Examiners	-	-	-
Board of Appraisal	-	-	-
Board of Barber Examiners	-	-	-

The Notes to the Financial Statements are an integral part of this statement.

SPECIAL REVENUE FUNDS		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
387	386	1
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
98,252	39,717	58,535
83,085	63,031	20,054
6,067	5,667	400
8,081	6,846	1,235
-	-	-
36,423	19,107	17,316
38,678	32,482	6,196
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
442	366	76
-	-	-
172,776	127,499	45,277
2,435	2,040	395
-	-	-
-	-	-
-	-	-
-	-	-
14,001	12,900	1,101
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
406	363	43
157	156	1
-	-	-
773	537	236
1,899	1,443	456
56	54	2
486	467	19
178	176	2

(Continued)

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	GENERAL FUND		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
Board of Behavioral Health Examiners	-	-	-
Board of Chiropractic Examiners	-	-	-
Registrar of Contractors	-	-	-
Board of Cosmetology	-	-	-
Board of Dental Examiners	-	-	-
Board of Funeral Directors and Embalmers	-	-	-
Department of Gaming	-	-	-
Board of Homeopathic Medical Examiners	-	-	-
Industrial Commission	-	-	-
Board of Medical Examiners	-	-	-
Naturopathic Board	-	-	-
Board of Nursing	-	-	-
Nursing Care Institution Administrators and Assisted Living Managers	-	-	-
Occupational Therapy Examiners Board	-	-	-
Board of Dispensing Opticians	-	-	-
Optometry Board	-	-	-
Osteopathic Examiners Board	-	-	-
Pharmacy Board	-	-	-
Physical Therapy Examiners Board	-	-	-
Podiatry Examiners Board	-	-	-
Private Postsecondary Education	-	-	-
Psychologist Examiners Board	-	-	-
Residential Utilities Consumer Office	-	-	-
Respiratory Care Examiners Board	-	-	-
Structural Pest Control Board	-	-	-
Technical Registration Board	-	-	-
Veterinary Medical Examiners Board	-	-	-
Total Inspection and Regulation	44,994	43,144	1,850
Education			
Arizona Commission on the Arts	4,376	4,376	-
State Board for Charter Schools	658	561	97
Community College Board	135,231	135,231	-
Schools for the Deaf and Blind	19,166	18,345	821
Schools for the Deaf and Blind-Capital Outlay	20	9	11
Department of Education	2,467,350	2,444,205	23,145
Department of Education-Capital Outlay	50	50	-
Historical Society	4,550	4,498	52
Historical Society-Capital Outlay	10	5	5
Prescott Historical Society	757	753	4
Medical Student Loans Board	322	322	-
Arizona Commission for Postsecondary Education	1,737	1,735	2
School Facilities Board	475,062	475,062	-
Board of Regents	7,421	7,301	120
Board of Regents-Capital Outlay	8,805	8,805	-
Arizona State University	324,416	324,416	-

The Notes to the Financial Statements are an integral part of this statement.

SPECIAL REVENUE FUNDS		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
634	561	73
344	319	25
10,072	8,300	1,772
1,369	1,161	208
763	716	47
291	237	54
4,783	4,479	304
90	53	37
14,984	14,649	335
6,085	4,654	1,431
223	166	57
2,575	2,570	5
227	222	5
159	120	39
95	87	8
191	178	13
490	378	112
1,227	907	320
235	205	30
95	92	3
181	179	2
338	246	92
1,244	939	305
187	144	43
2,183	1,725	458
1,194	1,112	82
294	281	13
70,944	62,816	8,128
-	-	-
-	-	-
197	197	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
2,935	2,117	818
-	-	-
-	-	-
-	-	-
-	-	-

(Continued)

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	GENERAL FUND		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
Northern Arizona University	113,170	113,170	-
Northern Arizona University-Capital Outlay	400	400	-
University of Arizona	327,952	327,952	-
University of Arizona-Capital Outlay	750	750	-
Total Education	3,892,203	3,867,946	24,257
Protection and Safety			
Board of Fingerprinting	-	-	-
Automobile Theft Authority	1	1	-
Department of Corrections	592,035	575,321	16,714
Department of Corrections-Capital Outlay	135	30	105
Arizona Criminal Justice Commission	2,655	2,614	41
Arizona Criminal Justice Commission-Capital Outlay	850	-	850
Department of Emergency and Military Affairs	16,383	13,598	2,785
Department of Emergency and Military Affairs-Capital Outlay	2,535	1,658	877
Board of Executive Clemency	1,301	1,294	7
Department of Juvenile Corrections	69,990	69,055	935
Department of Juvenile Corrections-Capital Outlay	198	192	6
Law Enforcement Merit System	54	54	-
Department of Public Safety	76,689	76,264	425
Department of Public Safety-Capital Outlay	257	223	34
Total Protection and Safety	763,083	740,304	22,779
Transportation			
Department of Transportation	16,832	16,829	3
Department of Transportation-Capital Outlay	20,000	20,000	-
Total Transportation	36,832	36,829	3
Natural Resources			
Game and Fish Department	-	-	-
Geological Survey	891	886	5
Land Department	16,505	15,803	702
Mines and Mineral Resources	723	722	1
Navigable Streams Adjudication	217	216	1
Parks Board	27,643	27,374	269
Parks Board-Capital Outlay	2,629	2,467	162
Water Resources	18,139	17,320	819
Water Resources-Capital Outlay	400	-	400
Total Natural Resources	67,147	64,788	2,359
Total Expenditures	6,486,397	6,379,854	106,543

The Notes to the Financial Statements are an integral part of this statement.

SPECIAL REVENUE FUNDS		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
-	-	-
-	-	-
92	92	-
-	-	-
3,224	2,406	818
40	40	-
3,325	3,262	63
1,535	1,440	95
-	-	-
4,489	4,222	267
-	-	-
360	360	-
-	-	-
-	-	-
685	685	-
-	-	-
-	-	-
26,858	24,628	2,230
-	-	-
37,292	34,637	2,655
635,161	574,252	60,909
-	-	-
635,161	574,252	60,909
24,395	20,642	3,753
-	-	-
1,353	1,092	261
-	-	-
-	-	-
10,624	5,405	5,219
-	-	-
-	-	-
-	-	-
36,372	27,139	9,233
1,054,021	868,466	185,555

(Continued)

STATE OF ARIZONA
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
APPROPRIATION (BUDGET) TO ACTUAL - BUDGETARY BASIS
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	GENERAL FUND		
	APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	87,582	-
Budget Stabilization Fund:			
Interest earnings	-	24,110	-
Operating transfers in	-	36,000	-
Operating transfers out	-	(94,580)	-
Tobacco Settlement Account:			
Revenues, interest earnings and operating transfers in	-	30,113	-
Expenditures and operating transfers out - non-appropriated	-	(52,664)	-
Total Other Financing Sources	-	30,561	-
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	-	(245,012)	-
Beginning Fund Balances	-	747,338	-
Ending Fund Balances	$ -	$ 502,326	$ -

The Notes to the Financial Statements are an integral part of this statement.

SPECIAL REVENUE FUNDS		
APPROPRIATION (BUDGET)	ACTUAL	UNDER/(OVER) SPENDING AUTHORITY
-	490,052	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	490,052	-
-	1,688,778	-
-	2,710,996	-
$ -	$ 4,399,774	$ -

STATE OF ARIZONA

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES

ALL PROPRIETARY FUND TYPES, NON-EXPENDABLE TRUST FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS

FOR THE YEAR ENDED JUNE 30, 2001

(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	NON-EXPENDABLE TRUST	PRIMARY GOVERNMENT
OPERATING REVENUES				
Sales and charges for services:				
Lottery	$ 272,671	$ -	$ -	$ 272,671
Other	84,949	156,419	35,214	276,582
Premium revenues	-	-	-	-
Intergovernmental	-	-	131	131
Motor vehicle and fuel taxes	141	-	-	141
Licenses, fees and permits	956	-	-	956
Earnings on investments	13,099	-	43,529	56,628
Gain on sale of land	-	-	146,304	146,304
Other	10,763	5,577	6,304	22,644
Total Operating Revenues	382,579	161,996	231,482	776,057
OPERATING EXPENSES				
Cost of sales and benefits	243,961	34,247	-	278,208
Personal services	21,747	30,751	1,908	54,406
Contractual services	6,729	28,905	3,003	38,637
Aid to local governments	34,360	1,597	81,501	117,458
Depreciation and amortization	3,809	16,509	273	20,591
Insurance	872	72,965	101	73,938
Provision for policyholders' dividends	-	-	-	-
Other	21,657	6,543	1,778	29,978
Total Operating Expenses	333,135	191,517	88,564	613,216
Operating Income (Loss)	49,444	(29,521)	142,918	162,841
NON-OPERATING REVENUES (EXPENSES)				
Gain (loss) on sale of fixed assets	(3)	425	-	422
Interest income	1,949	305	18	2,272
Interest expense	(433)	(4)	-	(437)
Other non-operating revenue	1,559	380	148	2,087
Other non-operating expense	(748)	(111)	-	(859)
Net Non-Operating Income (Loss)	2,324	995	166	3,485
Income (Loss) Before Contributions and Transfers	51,768	(28,526)	143,084	166,326
Capital contributions	56	-	-	56
Operating transfers in	6,765	4,445	2,000	13,210
Operating transfers out	(46,779)	(5,496)	(126)	(52,401)
Operating transfers out to primary government	-	-	-	-
Net Contributions and Transfers	(39,958)	(1,051)	1,874	(39,135)
Net Income (Loss)	11,810	(29,577)	144,958	127,191
Beginning Retained Earnings/Fund Balances (Deficits), as restated	136,156	(93,553)	1,072,264	1,114,867
Residual Equity Transfers	(12,783)	(500)	-	(13,283)
Ending Retained Earnings/Fund Balances (Deficits)	$ 135,183	$ (123,630)	$ 1,217,222	$ 1,228,775

The Notes to the Financial Statements are an integral part of this statement.

COMPONENT UNITS	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
PROPRIETARY AND FIDUCIARY FUND TYPES	
$ -	$ 272,671
270,475	547,057
185,373	185,373
2,205	2,336
-	141
-	956
213,138	269,766
-	146,304
18,241	40,885
689,432	1,465,489
73,165	351,373
120,625	175,031
39,102	77,739
-	117,458
19,993	40,584
2,559	76,497
68,000	68,000
272,583	302,561
596,027	1,209,243
93,405	256,246
-	422
9,281	11,553
(8,162)	(8,599)
1,368	3,455
(2,751)	(3,610)
(264)	3,221
93,141	259,467
40,972	41,028
-	13,210
-	(52,401)
(54)	(54)
40,918	1,783
134,059	261,250
526,521	1,641,388
-	(13,283)
$ 660,580	$ 1,889,355

STATE OF ARIZONA

COMBINED STATEMENT OF CASH FLOWS

ALL PROPRIETARY FUND TYPES, NON-EXPENDABLE TRUST FUNDS
AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPE	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	NON-EXPENDABLE TRUST	PRIMARY GOVERNMENT
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 49,444	$ (29,521)	$ 142,918	$ 162,841
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization	3,809	16,509	273	20,591
Net (increase) decrease in fair value of investments	(2,178)	-	9,672	7,494
Total Adjustments	1,631	16,509	9,945	28,085
Changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	1,082	(1,654)	(101,903)	(102,475)
Decrease in due from U.S. Government	5	-	-	5
(Increase) in due from local governments	-	(534)	-	(534)
(Increase) decrease in due from other Funds	2,858	(897)	(428)	1,533
Decrease in reinsurance recoverables	-	-	-	-
(Increase) decrease in inventories, at cost	373	(136)	-	237
(Increase) in other current assets	(585)	(5,022)	-	(5,607)
Decrease in other long-term assets	-	-	-	-
Increase (decrease) in accounts payable	(2,700)	3,098	269	667
Increase (decrease) in accrued liabilities	(1,468)	626	(68)	(910)
Increase (decrease) in due to local governments	(127)	6	-	(121)
Increase (decrease) in due to others	112	(205)	-	(93)
Increase (decrease) in due to other Funds	(2,743)	(112)	654	(2,201)
Increase (decrease) in deferred revenue	624	4	3,282	3,910
Increase in other current liabilities	1,269	8	982	2,259
Increase (decrease) in accrued compensated absences	72	120	-	192
Increase (decrease) in accrued insurance losses	(6,599)	20,601	-	14,002
(Decrease) in NCCI assigned risk pool liability	-	-	-	-
Increase in policyholders' dividends	-	-	-	-
(Decrease) in other long-term liabilities	(9)	-	-	(9)
Net Changes in Assets and Liabilities	(7,836)	15,903	(97,212)	(89,145)
Net Cash Provided by Operating Activities	43,239	2,891	55,651	101,781
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Interest income	-	-	18	18
Interest expense	(6)	(4)	-	(10)
Other non-operating revenue	1,158	380	148	1,686
Other non-operating expense	(748)	(111)	-	(859)
Operating transfers in	6,765	4,445	2,000	13,210
Operating transfers out	(46,779)	(5,496)	(126)	(52,401)
Operating transfers out to primary government	-	-	-	-
Residual equity transfers	(12,783)	(500)	-	(13,283)
Contributions from other Funds	-	1,032	-	1,032
Retirement of revenue bonds principal	-	-	-	-
Interest payments under bonds	-	-	-	-
Draws under capital grant facility	-	-	-	-
Increase in cash advances for Hoover Uprating Project	-	-	-	-
Net Cash Provided (Used) by Non-capital Financing Activities	(52,393)	(254)	2,040	(50,607)

The Notes to the Financial Statements are an integral part of this statement.

COMPONENT UNITS PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ 93,405	$ 256,246
19,993	40,584
-	7,494
19,993	48,078
(6,528)	(109,003)
-	5
-	(534)
-	1,533
3,095	3,095
(407)	(170)
(385)	(5,992)
816	816
1,100	1,767
(5,616)	(6,526)
-	(121)
-	(93)
-	(2,201)
(160)	3,750
1,659	3,918
(538)	(346)
18,384	32,386
(1,447)	(1,447)
4,910	4,910
(2,118)	(2,127)
12,765	(76,380)
126,163	227,944
-	18
(1,001)	(1,011)
1,368	3,054
(2,751)	(3,610)
-	13,210
-	(52,401)
(54)	(54)
-	(13,283)
-	1,032
(3,729)	(3,729)
(7,161)	(7,161)
44,489	44,489
(193)	(193)
30,968	(19,639)

(Continued)

STATE OF ARIZONA
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NON-EXPENDABLE TRUST FUNDS
AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY)
	ENTERPRISE	INTERNAL SERVICE	NON-EXPENDABLE TRUST	PRIMARY GOVERNMENT
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	$ (2,324)	$ (18,904)	$ (1,434)	$ (22,662)
Retirement of revenue bonds principal	-	-	-	-
Proceeds from sale of fixed assets	-	1,108	-	1,108
Interest payments under certificates of participation or bonds	(427)	-	-	(427)
Principal payments under leases and installment purchases	(1,100)	(2,047)	-	(3,147)
Proceeds in funds received by trustee	65	-	-	65
Discount on bonds issued / defeased	-	-	-	-
Capital contributions	56	-	-	56
Contributions from other Funds	-	1,239	-	1,239
Pari-mutuel racing receipts	401	-	-	401
Net Cash (Used) by Capital and Related Financing Activities	(3,329)	(18,604)	(1,434)	(23,367)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	129,951	-	344,642	474,593
Purchase of investments	(125,677)	-	(398,117)	(523,794)
Interest and dividends on investments	1,953	289	-	2,242
Change in cash collateral received from securities lending transactions	(14,341)	-	-	(14,341)
Change in long-term funds held by trustee	-	-	-	-
Net Cash Provided (Used) by Investing Activities	(8,114)	289	(53,475)	(61,300)
Net Increase (Decrease) in Cash and Cash Equivalents	(20,597)	(15,678)	2,782	(33,493)
Cash and Cash Equivalents - Beginning, as restated	113,737	76,340	69,035	259,112
Cash and Cash Equivalents - Ending	$ 93,140	$ 60,662	$ 71,817	$ 225,619
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED BALANCE SHEET				
Cash and Cash Equivalents - Ending	$ 93,140	$ 60,662	$ 71,817	$ 225,619
Long-term investments	222,253	-	1,016,984	1,239,237
Cash and investments - Combining Balance Sheet:				
Expendable Trust Funds	-	-	1,149,078	1,149,078
Pension Trust Funds	-	-	30,292,702	30,292,702
Investment Trust Funds	-	-	3,445,529	3,445,529
Agency Funds	-	-	3,169,364	3,169,364
Cash and Investments - Combined Balance Sheet	$ 315,393	$ 60,662	$ 39,145,474	$ 39,521,529

The Notes to the Financial Statements are an integral part of this statement.

COMPONENT UNITS PROPRIETARY AND FIDUCIARY FUND TYPES	TOTAL (MEMORANDUM ONLY) REPORTING ENTITY
$ (17,266)	$ (39,928)
(2,247)	(2,247)
-	1,108
-	(427)
-	(3,147)
175	240
83	83
-	56
-	1,239
-	401
(19,255)	(42,622)
5,406	479,999
(180,453)	(704,247)
9,351	11,593
(21,034)	(35,375)
3,621	3,621
(183,109)	(244,409)
(45,233)	(78,726)
408,086	667,198
$ 362,853	$ 588,472
$ 362,853	$ 588,472
2,278,571	3,517,808
-	1,149,078
-	30,292,702
-	3,445,529
-	3,169,364
$ 2,641,424	$ 42,162,953

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS
PENSION TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
ADDITIONS:					
Member contributions	$ 163,442	$ 58,053	$ 3,544	$ 28,966	$ 254,005
Employer contributions	163,442	52,540	647	14,928	231,557
Member reimbursements	37,687	-	-	-	37,687
Court fees	-	-	3,509	-	3,509
Investment income:					
Net (decrease) in fair value of investments	(2,039,496)	(1,011,023)	(75,727)	(155,801)	(3,282,047)
Interest income	340,913	96,845	7,337	14,479	459,574
Dividends	163,768	16,911	1,239	2,582	184,500
Real estate	10,313	-	-	-	10,313
Other	13,191	-	-	-	13,191
Total Investment Income	(1,511,311)	(897,267)	(67,151)	(138,740)	(2,614,469)
Security lending activities:					
Securities lending income	90,469	72,928	5,433	10,705	179,535
Borrower rebates	-	(70,432)	(5,256)	(10,348)	(86,036)
Agents share of income	-	(874)	(62)	(125)	(1,061)
Interest expense	(82,015)	-	-	-	(82,015)
Net Security Lending Income	8,454	1,622	115	232	10,423
Less: Investment Expenses	(25,833)	(351)	(24)	(52)	(26,260)
Net Investment Income	(1,528,690)	(895,996)	(67,060)	(138,560)	(2,630,306)
Operating transfers in	1,848	373	270	-	2,491
Total Additions	(1,162,271)	(785,030)	(59,090)	(94,666)	(2,101,057)
DEDUCTIONS:					
Retirement and disability benefits	886,965	163,422	16,694	13,353	1,080,434
Death benefits	14,134	-	-	-	14,134
Refunds to withdrawing members, including interest	98,535	6,052	134	14,610	119,331
Administrative expense	12,169	679	59	366	13,273
Operating transfers out	9,510	1,306	108	1,579	12,503
Other	11,478	-	-	-	11,478
Total Deductions	1,032,791	171,459	16,995	29,908	1,251,153
Net (Decrease) in Plan Net Assets	(2,195,062)	(956,489)	(76,085)	(124,574)	(3,352,210)
Net Assets Held in Trust for Pension Benefits:					
Beginning of year	23,925,605	5,378,551	402,244	807,766	30,514,166
End of year	$ 21,730,543	$ 4,422,062	$ 326,159	$ 683,192	$ 27,161,956

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN NET ASSETS
INVESTMENT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL-GOVERNMENT	TOTAL
ADDITIONS:				
Investment income:				
Interest income	$ 12,037	$ 163,938	$ 13,266	$ 189,241
Net increase in fair value of investments	1,115	2,927	84	4,126
Less: Management fees	(158)	(2,154)	(186)	(2,498)
Net Investment Income	12,994	164,711	13,164	190,869
Capital share transactions:				
Shares sold	26,691	3,879,340	228,544	4,134,575
Reinvested interest income	12,649	169,952	14,395	196,996
Shares redeemed	(29,100)	(3,405,231)	(277,312)	(3,711,643)
Net Capital Share Transactions	10,240	644,061	(34,373)	619,928
Total Additions	23,234	808,772	(21,209)	810,797
DEDUCTIONS:				
Dividends to investors	12,994	164,711	13,164	190,869
Total Deductions	12,994	164,711	13,164	190,869
Net Increase (Decrease) in Net Assets	10,240	644,061	(34,373)	619,928
Net Assets Held in Trust for Pool Participants:				
Beginning of year	189,959	2,415,527	239,202	2,844,688
End of year	$ 200,199	$ 3,059,588	$ 204,829	$ 3,464,616

The Notes to the Financial Statements are an integral part of this statement.

STATE OF ARIZONA
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
UNIVERSITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	CURRENT OPERATING FUNDS				
	UNRESTRICTED				
	GENERAL OPERATING FUNDS	DESIGNATED FUNDS	AUXILIARY ENTERPRISES FUNDS	RESTRICTED FUNDS	TOTAL CURRENT OPERATING FUNDS
REVENUES AND OTHER ADDITIONS					
Unrestricted current revenues	$ 287,257	$ 329,043	$ 230,696	$ -	$ 846,996
Tuition and fees	-	-	-	220	220
Governmental grants and contracts	-	-	-	408,621	408,621
Private gifts, grants and contracts	-	-	-	109,775	109,775
Conveyance of property	-	-	-	-	-
Investment and endowment income	-	-	-	8,304	8,304
Additions to plant facilities including $106,542 charged to current funds expenditures and ownership transfers of $849	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
Other additions	-	-	-	1,797	1,797
Total Revenues and Other Additions	287,257	329,043	230,696	528,717	1,375,713
EXPENDITURES AND OTHER DEDUCTIONS					
Educational and general expenditures	999,170	232,851	-	452,422	1,684,443
Auxiliary enterprises expenditures	-	-	198,649	-	198,649
Indirect costs recovered	-	-	-	79,442	79,442
Cancellation of loans and provision for bad debts	-	-	-	-	-
Administrative and collection costs	-	-	-	-	-
Expended for plant facilities including expenditures not capitalized of $5,596	-	-	-	-	-
Interest on indebtedness, including $1,372 capitalized as construction in progress	-	-	-	-	-
Disposal of plant facilities	-	-	-	-	-
Retirement of indebtedness	-	-	-	-	-
Other deductions	-	-	-	708	708
Total Expenditures and Other Deductions	999,170	232,851	198,649	532,572	1,963,242
TRANSFERS AMONG FUNDS AND ADDITIONS (DEDUCTIONS)					
State General Fund appropriations	764,879	-	-	5,758	770,637
Mandatory loan fund and matching grants	-	(541)	-	509	(32)
Mandatory debt indenture requirements	(435)	(45,522)	(20,091)	-	(66,048)
Other mandatory	(66,697)	(11,590)	(611)	5,072	(73,826)
Voluntary, net	48	(18,327)	(9,202)	6,257	(21,224)
Net Transfers Among Funds	697,795	(75,980)	(29,904)	17,596	609,507
Net Increase (Decrease) for the Year	(14,118)	20,212	2,143	13,741	21,978
Beginning Fund Balances, as restated	24,417	141,020	49,921	34,001	249,359
Ending Fund Balances	$ 10,299	$ 161,232	$ 52,064	$ 47,742	$ 271,337

The Notes to the Financial Statements are an integral part of this statement.

NON-OPERATING FUNDS						
		PLANT FUNDS				TOTAL
STUDENT LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	UNEXPENDED PLANT FUNDS	DEBT SERVICE FUNDS	INVESTMENT IN PLANT	TOTAL PLANT FUNDS	ALL FUNDS (MEMORANDUM ONLY)
$ -	$ -	$ -	$ -	$ -	$ -	$ 846,996
-	963	-	670	-	670	1,853
431	-	1,366	48	-	1,414	410,466
63	2,298	6,734	733	7,887	15,354	127,490
-	-	-	-	5,067	5,067	5,067
307	(6,131)	1,149	6,810	-	7,959	10,439
-	-	-	-	251,205	251,205	251,205
-	-	-	-	47,180	47,180	47,180
864	1,096	7,648	160	4,900	12,708	16,465
1,665	(1,774)	16,897	8,421	316,239	341,557	1,717,161
-	-	-	-	-	-	1,684,443
-	-	-	-	-	-	198,649
55	-	-	-	-	-	79,497
1,315	-	-	-	-	-	1,315
271	-	-	22	-	22	293
-	-	148,038	-	-	148,038	148,038
-	-	-	44,857	-	44,857	44,857
-	-	-	-	51,552	51,552	51,552
-	-	-	47,180	-	47,180	47,180
38	-	6,149	260	551	6,960	7,706
1,679	-	154,187	92,319	52,103	298,609	2,263,530
50	216	10,704	-	-	10,704	781,607
32	-	-	-	-	-	-
-	-	(280)	66,328	-	66,048	-
26	-	89	7,014	-	7,103	(66,697)
(63)	5,478	107,794	6,300	(98,285)	15,809	-
45	5,694	118,307	79,642	(98,285)	99,664	714,910
31	3,920	(18,983)	(4,256)	165,851	142,612	168,541
35,847	225,391	53,653	31,882	2,481,956	2,567,491	3,078,088
$ 35,878	$ 229,311	$ 34,670	$ 27,626	$ 2,647,807	$ 2,710,103	$ 3,246,629

STATE OF ARIZONA
COMBINED STATEMENT OF CURRENT OPERATING FUNDS
REVENUES, EXPENDITURES AND OTHER CHANGES
UNIVERSITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	UNRESTRICTED FUNDS				
	GENERAL OPERATING FUNDS	DESIGNATED FUNDS	AUXILIARY ENTERPRISES FUNDS	TOTAL UNRESTRICTED FUNDS	RESTRICTED FUNDS
REVENUES					
Tuition and fees	$ 280,940	$ 154,611	$ 9,532	$ 445,083	$ 220
Governmental grants and contracts	3,600	72,271	245	76,116	338,150
Private gifts, grants and contracts	-	25,568	12,533	38,101	96,057
Investment and endowment income	-	26,517	997	27,514	7,922
Sales and services of auxiliary enterprises	-	-	204,718	204,718	-
Sales and services of academic departments	1	31,997	-	31,998	-
Internal services	-	-	2,570	2,570	-
Other	2,716	18,079	101	20,896	8,651
Total Revenues	287,257	329,043	230,696	846,996	451,000
EXPENDITURES					
Educational and general:					
Instruction	442,443	73,458	-	515,901	40,428
Research	64,678	22,099	-	86,777	254,786
Public service	22,327	7,878	-	30,205	53,315
Academic support	162,623	29,622	-	192,245	1,399
Student services	53,507	19,138	-	72,645	5,525
Institutional support	92,128	47,045	-	139,173	1,190
Operation and maintenance of plant	102,621	7,080	-	109,701	22
Scholarships and fellowships	58,843	26,531	-	85,374	95,757
Total Educational and General Expenditures	999,170	232,851	-	1,232,021	452,422
Auxiliary enterprises	-	-	198,649	198,649	-
Total Expenditures	999,170	232,851	198,649	1,430,670	452,422
MANDATORY TRANSFERS					
Debt indenture requirements	(435)	(45,522)	(20,091)	(66,048)	-
Loan fund and matching grants	-	(541)	-	(541)	509
Other mandatory	(66,697)	(11,590)	(611)	(78,898)	5,072
Total Net Mandatory Transfers	(67,132)	(57,653)	(20,702)	(145,487)	5,581
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)					
State General Fund appropriations	764,879	-	-	764,879	1,444
Restricted receipts over transfers to revenues	-	-	-	-	2,589
Voluntary transfers, net	48	(18,327)	(9,202)	(27,481)	6,257
Other	-	-	-	-	(708)
Total Other Transfers and Additions (Deductions)	764,927	(18,327)	(9,202)	737,398	9,582
Net Increase (Decrease) in Fund Balances	$ (14,118)	$ 20,212	$ 2,143	$ 8,237	$ 13,741

The Notes to the Financial Statements are an integral part of this statement.

	TOTAL CURRENT OPERATING FUNDS
$	445,303
	414,266
	134,158
	35,436
	204,718
	31,998
	2,570
	29,547
	1,297,996
	556,329
	341,563
	83,520
	193,644
	78,170
	140,363
	109,723
	181,131
	1,684,443
	198,649
	1,883,092
	(66,048)
	(32)
	(73,826)
	(139,906)
	766,323
	2,589
	(21,224)
	(708)
	746,980
$	21,978

STATE OF ARIZONA
NOTES TO THE FINANCIAL STATEMENTS
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying financial statements of the State of Arizona (the State) have been prepared in conformity with generally accepted accounting principles (GAAP) applicable to governmental units.

The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. GASB's Codification of Governmental Accounting and Financial Reporting Standards documents these principles. The State's significant accounting policies are as follows:

Amounts in the "Total - Memorandum Only" columns in the accompanying financial statements represent a summation of the combined financial statement line items. These are presented for analytical purposes only. Consequently, amounts shown in the "Total - Memorandum Only" columns are not comparable to a consolidation, and they do not represent the total resources available, total liabilities and fund balances or total revenues and expenditures/expenses of the State. Interfund eliminations have not been made in the aggregation of this data.

All financial information of the reporting entity is for the fiscal year ended June 30, 2001, except for the State Compensation Fund. The State Compensation Fund's financial information is for the calendar year ended December 31, 2000.

B. FINANCIAL REPORTING ENTITY

The accompanying financial statements include financial transactions of all funds, account groups, elected offices, agencies, boards, commissions and authorities. The State has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

As required by generally accepted accounting principles, these financial statements present the State of Arizona (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State.

The State reporting entity does not include counties, municipalities, school districts, community colleges, the Central Arizona Water Conservation District or other political subdivisions of the State over which the State exercises little, if any, financial accountability.

1. Blended Component Units

The following component units have been presented as blended component units because the component units' governing body is substantially the same as the governing body of the State, or the component unit provides services almost entirely to the primary government. Consequently, they are reported as part of the State and blended into the fiduciary funds.

* Arizona State Retirement System (ASRS) - The ASRS is a cost-sharing, multiple-employer, public employee retirement system that provides for retirement, health insurance premium benefits, and death and survivor benefits for employees of the State and employees of participating political subdivisions and school districts. ASRS is governed by a seven-member board that is appointed by the Governor and approved by the Senate to serve three-year terms.

* Public Safety Personnel Retirement System (PSPRS) - The PSPRS is an agent, multiple-employer, public employee retirement system that benefits fire fighters and police officers employed by the State and its political subdivisions. The PSPRS is jointly administered by the Fund Manager and 179 local boards. The Fund Manager is a five-member board of which three members are appointed by the Governor and two members are appointed by the State Legislature. All members serve a fixed three-year term. Each eligible group participating in the system has a five-member local board. All members serve a fixed four-year term.

* Elected Officials' Retirement Plan (EORP) - The EORP is a cost-sharing, multiple-employer, public employee retirement plan that benefits all State and county elected officials and judges and certain elected city officials. The EORP is administered by a five-member board of which three members are appointed by the Governor and two members are appointed by the State Legislature. All members serve a fixed three-year term.

* Corrections Officer Retirement Plan (CORP) - The CORP is an agent, multiple-employer, public employee retirement plan that benefits county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections. The CORP is jointly administered by the Fund Manager of the PSPRS and 12 local boards. Each employer participating in the CORP has a five member local board. All members serve a fixed four-year term.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2. Discretely Presented Component Units

The State Compensation Fund, University Medical Center, the Arizona Power Authority and the Water Infrastructure Finance Authority are component units that are legally separate from the State, but are either financially accountable to the State, and/or the State is able to impose its will on the organizations.

The Component Units - Proprietary and Fiduciary Fund Types column of the combined financial statements includes the financial data of the State Compensation Fund, the University Medical Center, the Arizona Power Authority and the Water Infrastructure Finance Authority. Individual component unit disclosures are included throughout the notes to these financial statements. Separately issued independent audit reports may be obtained from the addresses presented below.

* State Compensation Fund - The State Compensation Fund was established by the Legislature for the purpose of insuring employers against liability for workers' compensation; occupational disease compensation; and medical, surgical and hospital benefits. The State Compensation Fund is governed by a board of directors that consists of five members appointed by the Governor for staggered terms of five years. Annually the Governor appoints a chairman from among the board members. The State is required by statute to review and approve the operating and capital outlay budget of the State Compensation Fund.

  State Compensation Fund
  3031 North 2nd Street
  Phoenix, Arizona 85012
  (602) 631-2000

* University Medical Center (the Center) - The Center is a 365-bed, general acute care, teaching medical facility in Tucson, Arizona. The Center is the primary teaching hospital for the College of Medicine, College of Nursing and the College of Pharmacy for the University of Arizona. In 1984, the Arizona Legislature passed a bill that enabled the Arizona Board of Regents to convey the Center to a private not-for-profit, tax-exempt corporation. Although an autonomous entity was created, the teaching missions and research alliances with the University of Arizona and the State of Arizona remained with the Center. Appointments of members of the Board of Directors are confirmed by the Arizona Board of Regents. The Arizona Legislature has limited both the number of Regents and the number of State employees allowed to serve on the Board of Directors.

  The University Medical Center
  655 East River Road
  Tucson, Arizona 85704
  (520) 694-2700

* Arizona Power Authority (APA) - The APA purchases the State's allocation of Hoover power and resells it to Arizona entities that are eligible purchasers under federal and state laws. Hoover power is produced by the Bureau of Reclamation at the federally owned Boulder Canyon Project hydropower plant, located near Las Vegas, Nevada. The APA is governed by a commission of five electors appointed by the Governor and approved by the Senate. The term of office of each member is six years and the members select a chairman and vice-chairman from among its membership for two-year terms.

  The Arizona Power Authority
  1810 West Adams Street
  Phoenix, Arizona 85007-2697
  (602) 542-4263

* Water Infrastructure Finance Authority (WIFA) - The WIFA is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act), which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has also entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act. The WIFA is governed by a twelve-member board of directors appointed by the Governor. The directors serve staggered terms of five years.

  The Water Infrastructure Finance Authority
  202 East Earll Drive, Suite 480
  Phoenix, Arizona 85012
  (602) 230-9770

3. Joint Venture

As discussed in more detail in Note 14, the State participates in a joint venture. The State does not include the financial activities of this organization in its financial statements in conformity with GASB Statement 14.

4. Related Organizations

The following related organizations, for which the State appoints a voting majority of their governing boards, are not part of the reporting entity based on the criteria of GASB Statement No. 14 and therefore, financial information pertaining to these entities has not been included.

* Arizona Health Facilities Authority (the Authority) - The Authority was established to issue tax-exempt bonds for the purpose of reducing health care costs and improving health

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

care for Arizona residents by providing less expensive financing for health care institutions. Proceeds from bond issues are loaned to various qualifying nonprofit health care institutions. The health care institutions reimburse the Authority for expenses for issuance of the bonds, pay fees of the Authority, and make payments under the loans for the benefit of the holders of the bonds. The Authority is governed by a seven-member board of directors that is appointed by the Governor and approved by the Senate. The directors serve staggered terms of seven years.

* Arizona International Development Authority (the Authority) - This Authority was established to facilitate the development of international trade or commerce between Arizona and other countries. The Authority is governed by a board of directors consisting of seven members appointed by the governor. The directors serve terms of five years.

C. FUND STRUCTURE

The State uses approximately 2,022 accounting funds. Each accounting fund is a separate accounting entity with its own self-balancing set of accounts that represent its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual accounting funds depending upon the purposes for which the State collects revenues or expends resources, and the means by which the State controls spending activities. For the purpose of preparing financial statements, the accounting funds have been combined by fund type. Any transactions between funds within a fund type have not been eliminated. Account groups are used to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. The four major fund types, two account groups and component units are described below:

1. Governmental Fund Types

The General Fund accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds or Component Units).

2. Proprietary Fund Types

Enterprise Funds account for operations (1) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (2) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.

Only those applicable FASB Statements and Interpretations, APB Opinions, and ARBs issued on or before November 30, 1989, are applied unless those pronouncements conflict with or contradict GASB pronouncements.

3. Fiduciary Fund Types

Expendable Trust Funds account for assets held by the State in a trustee capacity, where principal may be expended in the course of the funds' designated operations.

Non-Expendable Trust Funds account for assets held by the State in a trustee capacity, where the State must preserve the principal intact, and may expend only income derived from the principal for the funds' designated operations.

Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.

Investment Trust Funds account for transactions by local governments and political subdivisions that elect to participate in the State Treasurer's investment pools. The Treasurer acts as Trustee for the original deposits made into the investment pools.

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations. They are custodial in nature, and therefore, do not present results of operations.

4. University Funds

University Funds account for transactions of the State's three universities. For State reporting purposes, the University Funds combine the balances of each university's separate financial statements. The University Funds include:

* Current Operating Funds account for unrestricted resources over which the governing board retains full

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

control in achieving the institutions' purposes and restricted resources that may be used only in accordance with externally restricted purposes.

* Loan Funds account for loans made to assist students in financing their education.

* Endowment and Similar Funds account for private gifts that specify income purpose and principal protection and assets for which the universities act in a custodial manner.

* Plant Funds account for institutional property investment, acquisition, renewal, replacement and debt service.

5. General Fixed Assets Account Group

Fixed assets used in Governmental and Expendable Trust Funds operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in the individual funds. Fixed assets related to Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds and Component Units are accounted for in those funds.

6. General Long-Term Debt Account Group

The General Long-Term Debt Account Group reflects long-term liabilities expected to be retired with Governmental and Expendable Trust Funds resources. Liabilities related to Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds and Component Units are accounted for in those funds.

7. Component Units

The Component Units include proprietary and fiduciary type organizations that are legally separate from the State but are considered part of the reporting entity. For the current year, the operations of the State Compensation Fund (proprietary fund type) are combined and reported with the other component units in the General Purpose Financial Statements. In previous years the State Compensation Fund was reported on a statutory basis of accounting and was not combined with the other proprietary type component units.

D. BASIS OF ACCOUNTING

1. Overview

The measurement focus of the financial statements for the Governmental Funds and Expendable Trust Funds is the flow of current financial resources, measured by the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues and other financial resources are recognized in the accounting period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. Expenditures and other uses of financial resources are recognized when the related fund liability is incurred.

The measurement focus of the financial statements for the Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, Investment Trust Funds and Proprietary and Fiduciary Fund Types Component Units is the flow of economic resources, measured by the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

Agency Funds are reported on the modified accrual basis of accounting.

The measurement focus of the financial statements of the University Funds is the flow of total financial resources measured by the accrual basis of accounting in accordance with generally accepted accounting principles prescribed by the American Institute of Certified Public Accountants.

2. Revenue Recognition - Governmental Fund Types

The State recognizes tax revenues and related receivables when the taxpayer incurs the corresponding liability, and the payment has been demanded, provided the State can reasonably estimate the amount of revenue to which it is entitled and can reasonably establish its collectibility (i.e., earned and collected during the year, or expected to be collected within 31 days after year-end). Any receivables not collected within 31 days after year-end are recorded as deferred revenue. Major tax revenues determined to be susceptible to accrual include income, sales, unemployment, and motor vehicle and fuel taxes.

The State estimates the amount of taxes that will ultimately be uncollectible and excludes these from revenues. Tax refunds are based upon actual payments made within 31 days after fiscal year end and are recorded as a liability and a reduction in related revenue.

Property taxes are levied on the third Monday in August. The first half of collections are due October 1 and the second half are due the following March 1. Any property tax collections received within 31 days after fiscal year end are recognized as revenue. The lien date is the first day of January each year.

Federal grants and reimbursements are recorded as intergovernmental receivables and revenues when the State incurs the related expenditures or expenses, provided the State has complied with the terms of the grant award. Revenues from Federal entitlement awards are recorded as intergovernmental receivables and revenues when entitlement occurs. Any receivables not collected within 31 days after year-end are recorded as deferred revenue.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue from non-refundable licenses, permits and similar fees is recorded when cash is received. All other revenues are recorded when earned, or when the State becomes entitled to the revenue and can establish its collectibility; otherwise, the State defers recognition of revenue until cash is received.

3. Expenditure Recognition - Governmental Fund Types and Expendable Trust Funds

Typically the State recognizes expenditures and related liabilities in the accounting period the liability is incurred and if it is expected to be liquidated within the next 12 months, as a result of receiving property, goods or services, or when the beneficiary of a State program becomes entitled to receive benefits. Exceptions are:

* The State does not recognize a liability or the related expenditure for expected future welfare, health and similar benefits if the beneficiary is entitled to benefits solely because of a current condition.

* The State recognizes interest in the Debt Service Funds to the extent it becomes payable during the current fiscal year.

* The State recognizes compensated absences in the period paid. The related liabilities expected to be paid within 12 months after year-end are insignificant and therefore recorded with the long-term portion in the General Long-Term Debt Account Group.

* The State recognizes a liability and the related expenditures for the accrued liabilities of the Arizona Health Care Cost Containment System as they are incurred, regardless of when these expenditures are actually paid.

The portion of the liabilities that is expected to be liquidated beyond 12 months is recorded in the General Long-Term Debt Account Group.

E. VALUATION POLICIES

1. Cash and Cash Equivalents

Cash and cash equivalents include undeposited receipts, petty cash, bank accounts, non-negotiable certificates of deposit and collateral investment pools related to securities lending transactions.

2. Investments

Investments are stated at fair value or amortized cost, which approximates fair value, except for a) mortgages held by the State Compensation Fund, which are stated at unpaid principal balance plus or minus amortization of premium or discount and b) Treasurer's Custodial Securities of the Agency Funds, which are reported at par value.

3. Inventories

Inventories consist of expendable supplies held for consumption in all funds, and merchandise intended for sale to customers in the Proprietary Funds and University Funds. Inventories are stated at cost, using the first-in, first-out method. In Governmental Funds, inventories are accounted for using the purchase method. Under this method, inventories are recorded as an expenditure as they are purchased. However, inventories of the Arizona Department of Transportation State Highway Fund, reported as a Special Revenue Fund, is accounted for using the consumption method. Under this method, inventories are recorded as expenditures as they are used.

4. General Fixed Assets

Fixed assets capitalized in the General Fixed Assets Account Group are recorded at the time of purchase as capital outlay or other expenditures in the funds from which the expenditures are made. Such assets are capitalized at historical cost. Donated fixed assets are recorded at estimated fair market value on the date of contribution. Public domain (infrastructure) general fixed assets consisting of roads and bridges are not capitalized, as these assets are immovable and of value only to the government. The State does not record depreciation on general fixed assets.

5. Proprietary and Similar Trust Funds Fixed Assets

Fixed assets acquired in Proprietary and Similar Trust Funds are capitalized at historical cost. Donated fixed assets are recorded at estimated fair market value on the date of contribution. Depreciation is charged against operations in Proprietary and Similar Trust Funds on a straight-line basis over the estimated useful lives of the assets.

The State is trustee for approximately 9.3 million acres of land acquired through U.S. Government land grants. The State acquired a substantial portion of this land at no cost to the State, and its fair market value has not been reliably estimated. Accordingly, this land is not reported on the accompanying financial statements. A portion of the land that the State is trustee for has been sold and the buyers of the land have defaulted on the loans. The value of this land has been recorded at the sales price and properly included in the Non-Expendable Trust Funds fixed assets.

The State holds land and other assets in trust for the benefit of its public schools and other public institutions. The trust requires the principal to be held intact with only interest and rentals of property distributed for current operations. Accordingly, certain revenues, including gains on the sale of property, are added to principal rather than distributed for

current operations. In addition, the State Constitution provides that certain State revenues be added to the principal of the trust. In fiscal year 2001, the trust distributed all monies eligible for distribution to aid the State's educational system and other public institutions.

6. University Fixed Assets

Fixed assets capitalized in the University Funds are recorded at historical cost. Donated fixed assets are recorded at fair market value on the date of contribution. The University Funds do not record depreciation on fixed assets.

7. Leases

The State has entered into capital lease agreements for land, buildings, machinery and equipment. Although the terms of these leases vary, most are subject to annual appropriations by the Legislature. If a legislative appropriation is reasonably assured and the intent of the State is to continue the lease, a capital lease is considered non-cancelable for financial reporting purposes.

Assets acquired through capital leases are valued at cost. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group. Capital leases for the Proprietary, Similar Trust Funds and University Funds are reported in those funds as a long-term obligation, together with the related assets.

The State also leases land, buildings and equipment under operating leases. The related assets are not capitalized. Operating lease obligations are recorded when incurred as rental expenditures or expenses of the related funds.

F. BUDGETS AND BUDGETARY ACCOUNTING

1. Budget Process

Formulation of the budget begins with the preparation of estimates of expenditure requirements for the next two fiscal years by the head of each budgeted agency and institution. These estimates are submitted no later than September 1 of each even-numbered year to the Governor's Office of Strategic Planning and Budgeting. The budget is prepared by program elements for each agency.

The budget document, as finally developed by the Governor, must be submitted to the Legislature no later than five days after the regular session convenes in odd-numbered years. For each agency, comparative summaries of appropriations and revenues are presented for prior year, current year, the agency's request for the two ensuing fiscal years and the Governor's recommendation for the two ensuing fiscal years. The recommended appropriation bills are distributed according to budget programs and budget classes. The recommended appropriation bills indicate the programmatic appropriation to each agency and the source of funds from which each appropriation is to be paid. The Legislature must approve the budget by passing a general and capital outlay appropriation bill. The enacted budgets contain specific departmental program appropriations, which is the State's legal level of budgetary control. Accordingly, the appropriation bills budget by agency and program rather than by GAAP basis funds. The Governor may veto any item in an appropriation bill. Such vetoes are subject to legislative overrides. The budget can be amended throughout the year by special legislative appropriation and/or budget transfers. The State's Constitution prohibits budgeted expenditures from exceeding 7.41 percent of aggregate personal income as estimated by the Economic Estimates Commission.

The State prepares its biennial budget on the cash basis of accounting. Encumbrances as of June 30 can be liquidated during a four-week administrative period known as the 13th month. At the time of the appropriation bill's passage, estimates prepared by legislative and executive branch professional staff assure the Legislature that adequate revenues will be available to meet the level of appropriations approved. Anticipated revenue is estimated on the cash basis but is not part of the legally adopted budget. Consequently, the Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Appropriation (Budget) to Actual – Budgetary Basis – General and Special Revenue Funds compares only budget to actual expenditures. Furthermore, this document presents the comparisons on the budgetary basis and at a high level of aggregation because the details at the legal level of budgetary control would be extremely lengthy and cumbersome. Compliance with the legal level of budgetary control is demonstrated in a separate document.

The State prepares a separate document, "Annual Financial Report for the Fiscal Year Ending June 30, 2001", that includes schedules that demonstrate compliance with the legal level of budgetary control. A copy of this report is available from the State Department of Administration, Financial Services Division, General Accounting Office.

During the fiscal year, $1.107 billion in supplemental appropriations, net of adjustments and reversions, were provided to enhance various programs. The General Fund and Special Revenue Funds received $645.228 and $97.425 million, respectively, and those amounts are included in the financial statements.

2. Budgetary Control

The legal level of budgetary control is the agency and program specified in the appropriation bills. For example, "Children and Family Stability" and "Healthy Start Programmability" are two programs within the agency Health Services. Each agency must input an operations plan detailing planned expenditures down to the object level. Allotments of appropriations are made quarterly based upon

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

the appropriation bills and the plans of operations submitted by the agencies. Change of allotments between quarters requires the approval of the Governor's Office of Strategic Planning and Budgeting. Transfers between programs or classes of expenditure of an agency require recommendation by the Governor's Office of Strategic Planning and Budgeting and the approval of the Department of Administration, except for personal services and employee related expenditures which require approval by the Joint Legislative Budget Committee.

State agencies are responsible for exercising budgetary control and ensuring that expenditures do not exceed appropriations. The State Department of Administration – Financial Services Division exercises oversight and does not disburse monies in excess of appropriations.

Both the Arizona Constitution and statutes require a balanced budget for annual financial operations. If the Governor decides there will be a budgetary shortfall of revenues for a fiscal year, she can call the Legislature into Special Session so that the executive and legislative branches can address the shortfall.

3. Reconciliation of Budgetary Basis with GAAP Basis

The State budgets on a cash basis, but annually reports its financial condition according to generally accepted accounting principles (GAAP). The Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Appropriation (Budget) to Actual – Budgetary Basis – General and Special Revenue Funds is compiled on the budgetary basis. This Statement includes all the current year expenditures for the General Fund and the Special Revenue Funds that are legislatively authorized annually, continually, or by project. However, reports based on GAAP include additional expenditures and activities, such as most Federal grants activity that have not been appropriated, and funds that were not budgeted. Consequently, Note 2 provides a reconciliation of budgetary basis fund balances to fund balances reported in accordance with GAAP.

4. Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation, is an extension of formal budgetary control. The Department of Administration - Financial Services Division is authorized to draw warrants against the available balances of appropriations for one month after the end of the fiscal year to pay for goods or services received but not paid for at the close of the fiscal year.

Encumbrances outstanding more than one month after year end for goods or services that were not received before year end are canceled. These can only be paid upon a subsequent appropriation by the Legislature. Encumbrances for goods and services received before year end can be paid in the subsequent year with the previous year appropriations.

One month after year end, the remaining available appropriations lapse and no further payments may be made except for continuing appropriations allowed under Arizona Revised Statutes (ARS) §35-190. Continuing appropriations primarily relate to multi-year commitments and automatically renew without further legislative action until altered or revoked.

G. STATE COMPENSATION FUND

Significant accounting policies relating to the State Compensation Fund include:

1. Policyholders' Dividends

The Board of Directors of the State Compensation Fund makes provisions for dividends to policyholders based on the Fund's overall experience. Dividends are paid to policyholders that meet premium volume and loss experience criteria established by the Board. Dividends of $68.0 million were declared as of December 31, 2000.

2. Reinsurance

The State Compensation Fund is assigned certain policyholders that participate in the National Council on Compensation Insurance (NCCI) assigned risk pool. All premiums collected on such policies are ceded to NCCI. All losses incurred by the Fund on such policies are recoverable from NCCI. In addition, the Fund is assigned a pro rata allocation of the liability for loss and loss expenses incurred by all NCCI policyholders in the State. Losses of other policyholders in excess of specified amounts are recoverable from other reinsurers. Contracts with these reinsurers do not relieve the Fund of its obligation to policyholders.

H. NEW ACCOUNTING PRONOUNCEMENT

Effective July 1, 2000, the State implemented the Governmental Accounting Standards Board's Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, which describes how tax, grants, and donations revenues and expenditures should be reported.

NOTE 2. RECONCILIATION OF FUND EQUITY – BUDGETARY TO GAAP

The accompanying Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Appropriation (Budget) to Actual - Budgetary Basis - General and Special Revenue Funds presents comparisons of the legally adopted budget with actual data on the budgetary basis.

The Statement presents actual amounts on the State's budgetary basis for revenues, expenditures, transfers and other financing sources/uses. The Statement also includes appropriations authorized in one fund and transferred, by legislation, to another fund. The State does not have a legally adopted budget for revenues; therefore, only budgeted expenditures are presented on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Appropriation (Budget) to Actual - Budgetary Basis - General and Special Revenue Funds. Since the budgetary and GAAP presentations of actual data differ, a reconciliation of the two follows (amounts expressed in thousands):

	Total Budgetary Fund Classifications	General Fund	Special Revenue Funds
Perspective Differences			
Budgetary/Legal Basis Annual Report Fund Balances:			
General Fund	$ 502,326	$ 502,326	$ -
Special Revenue Funds	4,399,774	-	4,399,774
Non-Budgeted Funds	620,201	620,201	-
Prior Year Non-Appropriated Activity and Reclassification:			
Non-Appropriated Expenditures and Operating Transfers Out	(1,632,773)	-	(1,632,773)
Funds Reclassified from Capital Projects in Budget to Special Revenue in Financial Statements	(127,218)	-	(127,218)
Current Year Non-Appropriated Activity and Reclassifications:			
Funds Reclassified from Capital Projects in Budget to Special Revenue in Financial Statements	140,364	-	140,364
Non-Appropriated Revenues, Operating Transfers In and Bond Proceeds	1,268,845	-	1,268,845
Non-Appropriated Expenditures and Operating Transfers Out	(2,387,988)	-	(2,387,988)
Local Agency Deposits Fund Reclassified from Agency Funds in Budget to Special Revenue Funds in Financial Statements	3,898	-	3,898
Total Budgetary Fund Balances Reclassified into GAAP Statement Fund Structure	$ 2,787,429	1,122,527	1,664,902
Basis of Accounting Differences			
Increases to Fund Balances:			
Taxes receivable, net of allowances		535,051	82,697
Interest receivable		4,296	5,682
Other receivables		24,772	37,173
Due from U.S. Government		217,840	56,693
Due from local governments		698	3,139
Other assets		21,010	(58,908)
Due from other Funds		4,206	169,152
Inventories at cost		1,652	6,449
Decreases to Fund Balances:			
Accounts payable		56,866	115,384
Accrued liabilities		178,397	14,178
Due to U.S. Government		2,083	498
Due to local governments		73,099	97,778
Due to others		59,151	3,363
Due to other Funds		25,133	147,464
Deferred revenue		121,155	3,335
Notes payable		-	7,529
Other liabilities		35,804	4,419
Total GAAP Basis Fund Balances, June 30, 2001		$ 1,380,364	$ 1,573,031

NOTE 3. CASH AND INVESTMENTS

A. CASH AND INVESTMENT POLICIES

Cash and cash equivalents are under the control of the State Treasurer, the retirement systems or other administrative bodies. Arizona Revised Statutes §§35-112, 35-113 and 35-114 authorize the Treasurer to invest operating, trust and permanent endowment fund monies. Therefore, surplus cash deposited with the State Treasurer by State agencies with a statutory authorization to invest and all general fund monies are invested by the Treasurer in a pooled fund. Any interest earned is allocated monthly into each respective fund based on average daily cash balances.

The State Treasurer invests in short-term securities and other investments. Provisions of Arizona law restrict these investments to obligations of the U.S. Government and its agencies, obligations of the State and certain local government subdivisions, interest-bearing savings accounts and certificates of deposit, collateralized repurchase agreements, certain obligations of U.S. corporations, and certain other securities.

The State Treasurer also invests in various mortgage-backed securities for eight of the twenty-one investment pools it manages. These securities are reported at fair value on the balance sheet. In addition, they are reported in aggregate as U.S. Government securities. The securities are purchased to diversify the State's exposure to maturity and credit risks while providing for enhanced yields. The credit risk associated with holding these securities is reduced since all securities are rated AAA by Standard and Poor's and/or Moody's rating service. The market risk associated with holding these securities is linked to maturity risk in that as interest rates rise, the fair value of these securities will fall and prepayment of principal balances will decelerate. When interest rates fall, the fair value of these securities will rise and prepayment of principal balances will accelerate. The mortgage-backed securities are authorized under ARS §35-313.

Statutes enacted by the Legislature authorize the retirement systems to make investments in accordance with the "Prudent Person" rule. This rule imposes the responsibility of making investments with the judgment and care that persons of ordinary prudence would exercise in the management of their own affairs when considering both the probable safety of their capital and the probable income from that capital. Within this broad framework, the retirement systems have chosen to invest in short-term securities and repurchase agreements, obligations of the U.S. Government and its agencies, corporate bonds, common and preferred stocks and mortgages. The Statutes also place certain restrictions on the investment fund portfolios of the retirement systems.

Investments maintained by the State Treasurer are reported at fair value based upon an independent outside pricing service. Investments with a maturity of 91 days or more and all investments with a maturity of 90 days or less that were held at the beginning of the current fiscal year end, not valued by the pricing service, are valued using a market price solicited from the selling broker or a second outside pricing service. All investments with a remaining maturity of 90 days or less, that have no available market price, and were not held at the beginning of the current fiscal year, are valued using amortized cost. If different amortized cost values exist, the weighted average amortized cost is given to like investments.

The State Treasurer also maintains external investment pools (the Central Arizona Water Conservation District within the State Agencies Investment Pool 3, Local Government Investment Pool and Local Government Investment Pool-Government) with no regulatory oversight. The pools are not required to register (and are not registered) with the Securities and Exchange Commission under the 1940 Investment Advisors Act. The activity and performance of the pools are reviewed monthly by the State Board of Investment in accordance with ARS §35-311. The fair value of investments is measured on a monthly basis. Participant shares are purchased and sold based on the Net Asset Value (NAV) of the shares. The NAV is determined by dividing the fair value of the portfolio by the total shares outstanding. The State Treasurer does not contract with an outside insurer in order to guarantee the value of the portfolio or the price of shares redeemed. The State Treasurer makes investments only in external investment pools that are registered with the Securities and Exchange Commission.

The State Treasurer is not an involuntary participant in another entity's external investment pool.

The State Treasurer is not aware of any involuntary participation of local governments in the State's external investment pools. Participants meeting the criteria established under ARS §35-316 are eligible to participate in the pools and are not required to disclose the reason for requesting the account.

The investments of the State Treasurer's Custodial Securities, an Agency Fund, are recorded at par value. The investments are held by the State Treasurer for state agencies that perform a business compliance function.

The investments of the Arizona Exposition and State Fair are reported at fair value.

The Arizona State Retirement System investments are reported at fair value and at cost. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Commercial mortgages have been valued on an amortized cost basis, which approximates fair value. Short-term investments are reported at cost, which approximates fair value. For investments where no readily ascertainable fair

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

value exists, management, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment's degree of risk.

The Public Safety Personnel, Elected Officials' and Corrections Officer Retirement Systems investments are reported at fair value and at cost. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by an outside pricing service. Investments that do not have an established market are reported at estimated fair value.

The investments of the Universities are reported at fair value. Fair value is determined from quoted market prices. Non-participating interest bearing contracts are valued at cost.

The University Medical Center's short-term investments are reported at cost, which approximates fair value. Long-term investments are reported at fair value as determined by quoted market prices.

The investments of the Arizona Power Authority are reported at amortized cost, which approximates fair value.

The investments of the Water Infrastructure Finance Authority in Guaranteed Investment Contracts are stated at cost, since they are non-participating contracts. The other investments are stated at fair value, which approximates cost.

The investments of the State Compensation Fund in bonds, certificates of participation and equity securities are reported at fair value. Investments in mortgages are reported at amortized cost.

There is no income from investments associated with one fund that is assigned to another fund.

B. UNEMPLOYMENT INSURANCE

ARS §23-703 requires that unemployment insurance contributions from Arizona employers be deposited in an unemployment trust fund account with the Secretary of the Treasury of the United States that is established and maintained pursuant to Section 1104 of the Social Security Act. The cash on deposit in the trust fund account is pooled and invested. Interest earned from investments purchased with such pooled monies is deposited in the trust fund account.

C. RESTRICTED ASSETS

University Funds report as restricted assets cash and investments for bond and loan retirement funds, as well as for maintenance and replacement reserves. The Endowment and Restricted Funds also include restricted assets.

D. COLLATERAL AND INSURANCE

The State requires that deposits and investments with financial institutions be entirely covered by Federal depository insurance or, alternatively, collateralized with surety equal to at least 100% (102% for the Treasurer) of the deposits so collateralized. Cash deposited with banks is collateralized based on bank balances. Surety collateralization includes U.S. Government obligations, State obligations, obligations of counties and municipalities within the State, and certain other securities.

E. DEPOSITS COLLATERALIZATION

At June 30, 2001, the carrying amount of the State's deposits for the Primary Government was a $67.985 million deficit and $7.969 million for the Component Units. At June 30, 2001, the bank balance was $192.066 million for the Primary Government and $7.969 million for the Component Units. The cash deficits resulted from the State Treasurer not reducing investments until the servicing bank presented warrants for payment. For the Primary Government bank balances, $8.514 million was collateralized by Federal depository insurance. Of the remaining balance, $138.399 million was collateralized by securities held by the bank's trust division or agent in the State's name in book-entry form, and $45.153 million was either not collateralized or was collateralized with securities held in the bank's custodial account with the Federal Reserve in the bank's name in book-entry form. For the Component Units bank balances, $7.969 million was either not collateralized or was collateralized with securities held in the bank's custodial account with the Federal Reserve in the bank's name in book-entry form.

F. INVESTMENTS CUSTODIAL RISK

The following tables summarize the credit risk of the State's investments (expressed in thousands). Category A includes investments that are insured or registered, or for which securities are held by the State or the State's agent in the State's name. Category B includes uninsured and unregistered investments for which securities are held by the counterparty's agent or trust department in the State's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty, or by its agent or trust department but not in the State's name.

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Primary Government

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
U.S. Government securities	$ 5,963,442	$ -	$ 16,006	$ 5,979,448
Corporate stocks	15,738,845	2,963,664	-	18,702,509
Corporate debt	9,696,581	-	-	9,696,581
State and local government securities	433,673	-	-	433,673
Repurchase agreements	258,230	-	-	258,230
Other investments	201,995	3,320	63,144	268,459
Subtotal	$ 32,292,766	$ 2,966,984	$ 79,150	35,338,900
United States Treasury Pooled Investment				1,038,117
Guaranteed Investment Contracts				7,395
Money Market Mutual Funds				181,621
Mutual Fund - Benchmark Portfolio				7,875
Other investments - not categorized				172,017
Short-Term Investment Fund				2,004,523
Mortgages				192,586
Real Estate				40,675
Joint Venture				14,000
Collateral Investment Pool				1,610,487
Investments held by brokers/dealers under Security Loan Program:				
U.S. Government securities				1,686,035
Corporate stocks				1,111,647
Corporate debt				391,504
Component Units' investment in primary government's investment pool				(52,728)
Total Investments				43,744,654
Deposits				(67,985)
Total Cash and Investments				$ 43,676,669

Component Units

Type of Deposit or Investment	Category A	Category B	Category C	Reported Amount
U.S. Government securities	$ 751,197	$ -	$ -	$ 751,197
Corporate stocks	219,307	-	-	219,307
Corporate debt	626,990	-	-	626,990
State and local government securities	219,786	-	-	219,786
Repurchase agreements	7,147	-	-	7,147
Other investments	-	-	17,731	17,731
Subtotal	$ 1,824,427	$ -	$ 17,731	1,842,158
Guaranteed Investment Contracts				74,794
Mortgages				139,708
Money Market Funds				51,925
Collateral Investment Pool				254,323
Investments held by brokers/dealers under Security Loan Program:				
U.S. Government securities				126,860
State and local government securities				120,715
Investment in primary government's investment pool				52,728
Total Investments				2,663,211
Deposits				7,969
Total Cash and Investments				$ 2,671,180

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

At June 30, 2001, the State had no commitments to resell securities under yield maintenance agreements.

During the year ended June 30, 2001, the State did not make significant investments in types of investments beyond those enumerated in the preceding tables.

G. SECURITIES LENDING TRANSACTIONS

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. A corresponding liability is also reported for such securities lending transactions.

1. Industrial Commission

State statutes and the Industrial Commission (the Commission) policies permit the Commission to enter into securities lending transactions with its custodial bank. There were no significant violations of legal or contractual provisions, and there were no borrower or lending agent default losses to the securities lending agent. The custodial bank, Northern Trust, manages the securities lending operations through a contractual agreement with the Commission and splits the fees received with the Commission. There was no credit risk (i.e., lender's exposure to the borrowers of its securities) related to the securities lending transactions at June 30, 2001. Northern Trust's indemnification responsibilities include performing appropriate borrower and collateral investment credit analysis, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examinations Council regulations concerning securities lending. Securities are loaned for collateral that may include cash, U.S. Government securities and irrevocable letters of credit. Domestic securities are loaned for collateral valued at 102% of the market value of securities loaned plus accrued interest. International securities are loaned for collateral valued at 105% of the market value of the securities loaned plus accrued interest. The market value at June 30, 2001, for loaned securities collateralized by cash and non-cash collateral was $33.881 million and $7.689 million, respectively. As part of the securities lending transactions, Northern Trust received cash and non-cash collateral valued at $34.778 million and $7.887 million, respectively at June 30, 2001. Non-cash collateral cannot be pledged or sold unless the borrower defaults. Securities lent at year-end for cash collateral are presented as unclassified in the preceding schedule of custodial risk; securities lent for securities collateral are classified according to the category for the collateral received on the securities lent.

All securities loans can be terminated on demand by either the lender or the borrower. The average term of the loans are forty-four days and cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an average weighted maturity of thirty-four days as of June 30, 2001. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. Cash open loans can be terminated on demand by either lender or borrower and there were no dividends or coupon payments owing on securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month. Investments made with cash collateral received are classified as an asset on the Balance Sheet. A corresponding liability is recorded as the Commission must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2001, the Commission had $34.778 million outstanding as payable for securities lending.

2. Arizona State Retirement System

The Arizona State Retirement System (ASRS) is permitted by Title 38, Chapter 5, Article 2 of the Arizona Revised Statutes to enter into securities lending transactions. The ASRS enters into agreements with brokers to loan securities and have the same securities redelivered at a later date. It is the policy of the ASRS to receive as collateral at least 102% of the market value of the loaned securities and maintain collateral at no less than 100% for the duration of the loan. At year-end, the ASRS has no credit risk exposure to borrowers because the amount the ASRS owes borrowers exceeds the amount the borrowers owe ASRS. During fiscal year 1998, statutes were amended to allow for other than cash collateral. The ASRS reports the collateral received as an asset and the same amount as an obligation for securities on loan. Any cash collateral received is invested in short-term investments. The ASRS receives a negotiated fee for its loan activities. Investments made with cash collateral received are classified as an asset on the Combining Statement of Plan Net Assets. A corresponding liability is reported as the ASRS must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2001, the ASRS had $1.528 billion outstanding as payable for securities on loan. The maturities of the investments made with cash collateral match the maturities of securities on loan.

Due to the flow of securities to and from transfer agents and the security loan program, securities occasionally cannot be delivered for a sale or received for a purchase, resulting in a "failed" transaction. Securities with trade dates in June and settlement dates in July result in "outstanding" transactions. Since these securities have contractually changed ownership, receivables and payables result from these transactions. Such transactions resulted in a receivable for securities sold of $129.082 million and a payable for securities purchased of $280.019 million at June 30, 2001.

3. Public Safety Personnel Retirement System, Elected Officials' Retirement Plan and Corrections Officer Retirement Plan

The Public Safety Personnel Retirement System (PSPRS), Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP) are permitted by Title 38, Chapter 5, Articles 3, 4 and 6 of the Arizona Revised Statutes to enter into securities lending transactions. The PSPRS, EORP and CORP are parties to securities lending agreements with a bank. The bank, on behalf of the PSPRS, EORP and CORP, enters into agreements with brokers to loan securities and have the same securities returned at a later date. The loans are fully collateralized, primarily by cash. Collateral is marked-to-market on a daily basis. Non-cash collateral can be sold only upon borrower default. The PSPRS, EORP and CORP require collateral of at least 102% of the fair value of the loaned U.S. Government or corporate security. Securities on loan are carried at fair value. As of June 30, 2001, the fair value of securities on loan were (expressed in millions):

PSPRS	$1,245.816
EORP	91.482
CORP	175.474

The PSPRS, EORP and CORP receive a negotiated fee for their loan activities and are indemnified for broker default by the securities lending agent. The PSPRS, EORP and CORP participate in a collateral investment pool. All security loans can be terminated on demand by either the pool participants or the borrower. All term loans have a matched collateral investment. Cash collateral received for open loans is invested for a longer term, however, at least 20% of total collateral investments must be invested on an overnight basis and at least 30% of total collateral investments must be invested with a maturity of seven days or less. Additionally, no more than 20% of the total collateral investments will be invested in instruments maturing in over 91 days. In lending securities, investments of cash collateral for open loans as of June 30, 2001, are not matched in maturity and have a weighted average maturity of nine days. The PSPRS, EORP and CORP have no credit risks under this program and have experienced no defaults or losses on these loans. Investments made with cash collateral received are classified as an asset on the Combining Statement of Plan Net Assets. A corresponding liability is recorded as the PSPRS, EORP and CORP must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2001, the PSPRS, EORP and CORP had $1,296.756, $95.992 and $182.960 million outstanding, respectively, as payable for securities on loan.

4. State Compensation Fund

The State Compensation Fund (the Fund) participates in a securities lending program in which securities are loaned to approved brokers/dealers for specified periods of time. All securities on loan are collateralized by cash or cash equivalents of at least 102% of their fair market value. The collateral is maintained by the Fund's investment trustee who is not a party to the security lending agreement. The Fund had invested securities on loan with a market value of approximately $247.575 million and a book value of $232.266 million at December 31, 2000. The collateral held and the corresponding obligation for its return have been recorded in short-term investments and liabilities, respectively. The Fund held collateral of approximately $254.323 million as of December 31, 2000.

H. DERIVATIVES

Derivatives are financial instruments (securities or contracts) whose value is dependent on reference rates or indices such as stock or bond prices, interest rates or currency exchange rates. ASRS internal investment managers use derivatives to hedge currency risk, reduce transaction costs, obtain market exposure, and enhance returns.

The principal categories of derivatives employed and their uses during the year were as follows:

Category	Purpose
Foreign exchange forward contracts	Hedge currency risk of investment denominated in foreign currencies.
Futures	Reduce transaction costs; obtain market exposure; enhance returns.
SWAPS	Interest rate risk management; enhance returns.

Generally, derivatives are subject to both market risk and counterparty risk. The derivatives utilized by ASRS internal investment managers typically have no greater market risk than their physical counterparts, and in many cases are offset by exposure elsewhere in the portfolio.

The ASRS believes that it is unlikely that any of the derivatives used by its internal investment managers could have a material adverse effect on the financial conditions of the System.

I. STATE TREASURER'S SEPARATELY ISSUED FINANCIAL STATEMENTS

The State Treasurer issues a separately published Annual Financial Report. The report provides additional information relating to the State Treasurer's total investing activities and the internal and external participants of the Investment Trust Funds. The Investment Trust Funds report on the activities of the Local Government Investment Pools and Central Arizona Water Conservation District Investment Account. A copy of the State Treasurer's Office Annual Financial Report can be obtained from their office at 1700 W. Washington, Phoenix, Arizona 85007-2812. The Treasurer's financial statements are audited by the Office of the Auditor General.

NOTE 4. RECEIVABLES / DEFERRED REVENUE

A. TAXES RECEIVABLE

Taxes receivable represent amounts owed by taxpayers for the 2000 and prior calendar years including assessments for underpayment, penalties and interest totaling approximately $100.449 million at June 30, 2001. Taxes receivable resulting from sales income and other assessments are recognized when the underlying exchange transaction occurs. Related revenues are recognized when the exchange occurs, but only to the extent that these resources will be available to pay current liabilities.

The income tax receivable is composed of individual and corporate estimated payments, withholding payments, payments with final returns and assessments that relate to income earned through June 30, 2001. Sales and motor vehicle and fuel tax receivable represent amounts that are earned by the State in the fiscal period ended June 30, 2001, but not collected until the following month.

The following table summarizes taxes receivable at June 30, 2001 (expressed in thousands):

Type of Tax	General Fund	Special Revenue Funds	Capital Projects Funds	Trust and Agency Funds
Sales	$ 295,891	$ 1,873	$ -	$ -
Income - individual and corporate	395,084	-	-	-
Insurance premium	24,764	-	-	-
Motor vehicle and fuel	-	71,335	-	-
Luxury	5,255	9,489	2,076	-
Unemployment	-	-	-	39,168
Allowance for uncollectible taxes	(113,828)	-	-	-
Net Taxes Receivable	$ 607,166	$ 82,697	$ 2,076	$ 39,168

B. DEFERRED REVENUE

Deferred revenue consists of payments to the State for goods and services not yet rendered or taxes, grants, and other non-exchange transactions for which related resources are not available to pay current liabilities. Delinquent taxes and Federal grant revenue not collected within 31 days after June 30, 2001, are deferred and, consequently, are not included in current year revenues. Funds and Component Units with deferred revenue of $10 million or more consist of the following (expressed in thousands):

Revenue Source	General Fund	Trust and Agency Funds	University Funds	Component Units
Taxes	$ 159,429	$ -	$ -	$ -
Land leases	7,751	18,623	-	-
Student tuition and fees	-	-	154,100	-
Public assistance overpayments	23,813	-	-	-
Food stamps	281	-	-	-
Federal grants and reimbursements	2,016	-	-	-
Unemployment insurance contributions	-	15,422	-	-
Policyholders' advance premiums	-	-	-	35,185
Other	7,007	4	-	1,298
Total	$ 200,297	$ 34,049	$ 154,100	$ 36,483

NOTE 5. GOVERNMENTAL RECEIVABLES / PAYABLES

A. GOVERNMENTAL RECEIVABLES

Due from U.S. Government of $217.840 million in the General Fund represents receivables from Federal financial assistance programs and $56.730 million in the Special Revenue Funds consists principally of amounts owed to the Arizona Department of Transportation for reimbursement of highway construction costs from the U.S. Department of Transportation.

B. GOVERNMENTAL PAYABLES

Due to local governments in the General Fund and Special Revenue Funds ($144.132 and $100.706 million, respectively) represents primarily sales and motor vehicle and fuel tax collections that have not yet been remitted by the State to the respective local governments as of June 30, 2001.

NOTE 6. FIXED ASSETS

A. GENERAL FIXED ASSETS ACCOUNT GROUP

A summary of changes in the general fixed assets account group follows (expressed in thousands):

Asset	Balance July 1, 2000	Additions	Deletions	Balance June 30,2001
Land	$ 89,149	$ 13,635	37	$ 102,747
Building and improvements	1,027,619	9,075	3,447	1,033,247
Other improvements	123,544	19,429	-	142,973
Furniture, vehicles and equipment	347,591	48,784	22,850	373,525
Subtotal	1,587,903	90,923	26,334	1,652,492
Construction-in-process	225,900	20,084	3,287	242,697
Total General Fixed Assets	$ 1,813,803	$ 111,007	$ 29,621	$ 1,895,189

B. PROPRIETARY AND SIMILAR TRUST FUNDS FIXED ASSETS

Proprietary and Similar Trust Funds fixed assets consisted of the following as of June 30, 2001 (expressed in thousands):

	Primary Government				
Asset	Enterprise Funds	Internal Service Funds	Similar Trust Funds	Component Units	Combined Total
Land	$ 2,871	$ -	$ 8,999	$ 9,558	$ 21,428
Buildings and improvements	37,046	4,035	4,563	177,460	223,104
Other improvements	4,061	-	(274)	4,686	8,473
Furniture, vehicles and equipment	41,481	191,500	1,061	138,287	372,329
Construction in progress	253	-	403	4,381	5,037
Subtotal	85,712	195,535	14,752	334,372	630,371
Less: accumulated depreciation	(42,662)	(117,603)	(1,699)	(193,370)	(355,334)
Total	$ 43,050	$ 77,932	$ 13,053	$ 141,002	$ 275,037

Fixed assets of the Proprietary, Similar Trust Funds and Component Units are capitalized in the fund in which they are utilized and depreciated on a straight-line basis over their useful lives. The estimated lives of fixed assets are as follows:

	Years	
	Primary Government	Component Units
Buildings and improvements	40	5-50
Other improvements	15	15
Furniture, vehicles and equipment	5-15	3-15

NOTE 6. FIXED ASSETS (CONCLUDED)

C. UNIVERSITIES' FIXED ASSETS

The Universities' fixed assets consist of the following (expressed in thousands):

Asset	Balance June 30, 2001
Land	$ 199,046
Buildings and improvements	1,996,262
Other improvements	34,155
Furniture, vehicles and equipment	1,083,968
Subtotal	3,313,431
Construction in progress	126,161
Total	$ 3,439,592

Universities' construction projects included in construction in progress have a total estimated cost of $327.359 million, a cost to date of $126.161 million and a remaining cost to complete of $201.198 million.

In February 2001, the Federal Government made to Arizona State University its third conveyance of buildings and land of the former Williams Air Force Base which is used by the University as the ASU East Campus. Previous conveyances were made in October 1996 and December 1999. The property transfers are conditional upon the use of the property for educational purposes in accordance with the terms of the deed. The appraised fair value of all the property conveyed through June 30, 2001 is $89.0 million and consists of 70 multi-purpose use buildings and 653 single family residences valued at $68.8 million, site improvements valued at $3.5 million and 584 acres of land valued at $16.7 million.

Arizona State University recorded this conveyed property at the time of title transfer at its appraised value. The University expects a final conveyance of the remaining property to occur. The appraised fair value of the property yet to be conveyed is less than $1.0 million and includes one multi-purpose use building and approximately one acre of land. The University will record these remaining assets at the time they are conveyed by the Federal Government.

NOTE 7. RETIREMENT PLANS

The State contributes to the four plans described below. The four plans are considered part of the State's financial reporting entity and are included in the State's financial statements as Pension Trust Funds.

A. PLAN DESCRIPTIONS

The State participates in the Arizona State Retirement System (ASRS), the Public Safety Personnel Retirement System (PSPRS), the Elected Officials' Retirement Plan (EORP) and the Corrections Officer Retirement Plan (CORP). Benefits are established by state statutes and provide retirement, death, long-term disability, survivor and health insurance premium benefits to State employees, public school employees and employees of counties, municipalities and certain other State political subdivisions.

The **ASRS** is a cost-sharing, multiple-employer defined benefit pension plan that benefits employees of the State, its political subdivisions and public schools. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2.

The **PSPRS** is an agent, multiple-employer defined benefit pension plan that benefits fire fighters and police officers employed by the State or certain local governments. The PSPRS, acting as a common investment and administrative agent, is governed by a five-member board, known as the Fund Manager, and 179 local boards according to the provisions of ARS Title 38, Chapter 5, Article 4.

The **EORP** is a cost-sharing, multiple-employer defined benefit pension plan that benefits all elected State and county officials and judges and certain elected city officials. The EORP is governed by the Fund Manager of the PSPRS according to the provisions of ARS Title 38, Chapter 5, Article 3.

The **CORP** is an agent, multiple-employer defined benefit pension plan that benefits town, city and county detention officers and certain employees of the Arizona Department of Corrections and the Arizona Department of Juvenile Corrections. The CORP is governed by the Fund Manager of the PSPRS and 12 local boards according to the provisions of ARS Title 38, Chapter 5, Article 6.

NOTE 7. RETIREMENT PLANS (CONTINUED)

Each plan issues a publicly available financial report that includes its financial statements and required supplementary information. A report may be obtained by writing or calling the applicable plan.

Arizona State Retirement System
3300 North Central Avenue
P.O. Box 33910
Phoenix, Arizona 85067-3910
(602) 240-2000 or (800) 621-3778

Public Safety Personnel Retirement System, Elected Officials' Retirement Plan or the Corrections Officer Retirement Plan
1020 East Missouri Avenue
Phoenix, Arizona 85014
(602) 255-5575

The number of participating government employers as of June 30, 2001, are shown below:

Employer	ASRS	PSPRS	EORP	CORP
Cities and towns	64	118	16	-
Counties and county agencies	14	20	15	10
State	1	1	1	1
Special districts	51	40	-	-
School districts	222	-	-	-
Charter schools	119	-	-	-
Community college districts	10	-	-	-

B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As part of the Pension Trust Funds, the financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred and revenues are recorded in the accounting period in which they are earned and become measurable. Employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible and, accordingly, no allowance for uncollectible receivables is reflected in the financial statements.

For the ASRS, investments are reported at fair value and at cost. Security transactions and any resulting gains or losses are accounted for on a trade-date basis. Investments, other than real estate and commercial mortgages, are reported at fair values determined by the custodial agents. The agent's determination of fair values includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates. Commercial mortgages have been valued on an amortized cost basis which approximates fair value. No allowance for loan loss has been provided as all loans and bonds are considered by management to be fully collectible.

Short-term investments are reported at cost, which approximates fair value. For investments where no readily ascertainable fair value exists, management, in consultation with its investment advisors, has determined the fair values for the individual investments based on anticipated maturity dates and current interest rates commensurate with the investment degree of risk. Net investment income includes net decrease in fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

For the PSPRS, EORP and the CORP, investments are reported at fair value and at cost. Fair values are determined as follows: Short-term investments are reported at fair value, which approximates cost. Equity securities are valued at the last reported sales price. Fixed-income securities are valued using the last reported sales price or the estimated fair market value as determined by one of the world's largest and most prominent fixed-income broker/dealers. Investments that do not have an established market are reported at estimated fair value. Investment income is recognized as earned.

Statutes enacted by the Arizona State Legislature restrict the four retirement plans from investing more than five percent of each plan's total assets in securities issued by any one institution, agency or corporation, other than securities issued as direct obligations of or fully guaranteed by the U.S. Government. As of June 30, 2001, the four retirement plans are in compliance with the state statutes.

C. FUNDING POLICY

The contribution requirements of plan members and the State are established by Title 38, Chapter 5 of the Arizona Revised Statutes. These contribution requirements may be amended by the Arizona State Legislature.

Cost-sharing plans - For the year ended June 30, 2001, active ASRS members and the State were each required by statute to contribute at the actuarially determined rate of 2.66 percent (2.17 percent retirement and 0.49 percent long-term disability) of the members' annual covered payroll. The State's contributions to ASRS for the years ended June 30, 2001, 2000 and 1999 were $36.832, $35.147 and $42.112 million, respectively, for the primary government and $298, $617 and $727 thousand, respectively, for the component units, which were equal to the required contributions for the year.

NOTE 7. RETIREMENT PLANS (CONTINUED)

In addition, active EORP members were required by statute to contribute 7.00 percent of the members' annual covered payroll. The State was required to contribute a designated portion of certain fees collected by the Supreme Court plus additional contributions of 8.94 percent of the members' annual covered payroll, as determined by actuarial valuation. The State's contributions to EORP for the years ended June 30, 2001, 2000 and 1999 were $183 thousand, $184 thousand and $1.180 million, respectively, which were equal to the required contributions for the year.

Agent plans - For the year ended June 30, 2001, active PSPRS members were required by statute to contribute 7.65 percent of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 2.00 – 9.11 percent. Active CORP members were required by statute to contribute 8.50 percent of the members' annual covered payroll and the participating State agencies were required to contribute at actuarially determined rates of 2.57 – 4.11 percent.

D. ANNUAL PENSION COST

The State's annual pension cost and related actuarial data for each of the agent, multiple-employer defined benefit pension plans for the year ended June 30, 2000, the most current data available, follows (expressed in thousands):

	PSPRS	CORP
Contribution rates:		
State	2.00%-9.57%	1.36%-2.86%
Plan members	7.65%	8.50%
Annual pension cost	$4,106	$13,840
Contribution made	$4,106	$13,840
Actuarial valuation date	6/30/98	6/30/98
Actuarial cost method	entry age	entry age
Actuarial assumptions:		
Investment rate of return	9%	9%
Projected salary increases	6.5%-9.5%	5.5%-9.5%
includes inflation at	5.5%	5.5%
Cost-of-living adjustment	none	none
Amortization method	level percent open	level percent open
Remaining amortization period from 6/30/98	20 years	20 years
Asset valuation method	4-year smoothed market	4-year smoothed market

E. TREND INFORMATION

Information for each of the agent, multiple-employer defined benefit plans as of the most recent actuarial valuations for the past three fiscal years available is as follows (expressed in thousands):

Contributions Required and Contributions Made

	Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PSPRS	6/30/00	$ 4,106	100%	$ 0
	6/30/99	4,348	100	0
	6/30/98	5,345	100	0
CORP	6/30/00	13,840	100	0
	6/30/99	13,500	100	0
	6/30/98	13,355	100	0

NOTE 7. RETIREMENT PLANS (CONTINUED)

F. FUNDING PROGRESS

Analysis of the funding progress for each of the agent, multiple-employer defined benefit plans as of the most recent actuarial valuations, for the past three fiscal years available is as follows (expressed in thousands):

Plan	Actuarial Valuation Date	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Funding Excess	Funded Ratio	Annual Covered Payroll	Funding Excess as Percentage of Covered Payroll
PSPRS	6/30/00	$ 584,825	$ 446,225	$ 138,600	131.1%	$ 68,563	202.1%
	6/30/99	497,050	397,860	99,190	124.9	61,994	160.0
	6/30/98	436,811	363,284	73,527	120.2	56,711	129.7
CORP	6/30/00	547,149	394,319	152,830	138.8	278,819	54.8
	6/30/99	457,404	345,460	111,944	132.4	243,211	46.0
	6/30/98	374,549	316,710	57,839	118.3	204,778	28.3

G. UNIVERSITIES' DEFINED CONTRIBUTION PLANS

Faculty, academic professionals and administrative officers at the three universities (Arizona State University, Northern Arizona University, and University of Arizona) may select one of six retirement plans: the Arizona State Retirement System (ASRS), Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Services Company (Fidelity), Aetna Life Insurance and Annuity Company (Aetna) or The Vanguard Group (Vanguard). The ASRS is a defined benefit plan (described above) and the other five plans are defined contribution plans. The five defined contribution plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. In addition, University of Arizona employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Eligible classified staff belong to the Arizona State Retirement System. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings.

The Arizona State Legislature establishes and may amend active plan members' and the Universities' contribution rates. For the year ended June 30, 2001, plan members and the three Universities were each required by statute to contribute an amount equal to seven percent of an employee's compensation, except for a 7.92 percent contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2001, were as follows (expressed in thousands):

Plan	University Contributions	Employee Contributions	Total Contributions
TIAA/CREF	$ 22,126	$ 22,126	$ 44,252
VALIC	3,082	3,082	6,164
Fidelity	3,250	3,250	6,500
Aetna	1,279	1,279	2,558
ASRS	214	189	403
Vanguard	129	129	258

NOTE 7. RETIREMENT PLANS (CONCLUDED)

H. UNIVERSITY MEDICAL CENTER DEFINED CONTRIBUTION PLAN

The University Medical Center (UMC) has an Employee Pension Plan (the Plan) for its employees. The Plan is a defined contribution plan covering all UMC employees who are subject to minimum employment requirements, as defined in the Plan Agreement. The UMC makes contributions to the Plan in amounts equal to (a) 5.5 percent of total compensation plus (b) 5.4 percent of compensation in excess of 80 percent of the FICA wage base. Such contributions are allocated to each participant as defined in the Plan Agreement. Retirement plan expense, net of participant forfeitures was approximately $4.08 million for the year ended June 30, 2001.

I. POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described, the ASRS makes group health insurance coverage available to eligible retired and disabled members and their dependents. Retired and disabled members of the ASRS, PSPRS, EORP and CORP may participate if they are no longer eligible for health insurance benefits through their former employer.

This program is administered in accordance with ARS §38-782 and §38-783. Health insurance premiums are withheld from benefit payments and remitted to health insurance carriers. Approximately 38,000 coverage agreements currently exist for retired and disabled members and their dependents. The ASRS remitted approximately $40.5 million to health insurance carriers for premium payments during the fiscal year.

NOTE 8. EMPLOYEE BENEFITS

A. COMPENSATED ABSENCES

1. Annual Leave

In general, State employees accrue vested annual leave at a variable rate based on years of service. An employee forfeits accumulated annual leave in excess of 240 hours at the end of a calendar year, unless the Director of the Department of Administration authorizes an exception. An employee who separates from State service is paid for all unused and unforfeited annual leave at the employee's rate of pay at the time of separation.

2. Compensatory Leave

Some employees accumulate compensatory leave for time worked over 40 hours per week. Compensatory leave is treated like annual leave except that the employee must use any compensatory leave before using annual leave.

B. SICK LEAVE

Sick leave includes any approved period of paid absence granted an employee due to illness, injury or disability. Most State employees accrue sick leave at the rate of eight hours per month without an accumulation limit. State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1500 hours upon retirement directly from State service. (See Note 15.D)

NOTE 9. LONG-TERM DEBT

A. REVENUE BONDS

Primary Government

1. Arizona Department of Transportation

The Arizona Department of Transportation (ADOT) issued Highway Revenue Bonds in 1991, 1992, 1993, 1999 and 2001. These bonds are secured by a prior lien on and a pledge of motor vehicle and related fuel fees and taxes of the State Highway Fund, a Special Revenue Fund. Arizona Revised Statutes prohibit the total principal amount of Arizona Highway Revenue Bonds, excluding refunded bonds, to exceed $800 million.

The ADOT also issued Transportation Excise Tax Revenue Bonds in 1988, 1992, 1993, 1995, 1998, 1999 and 2000. These bonds are secured by transportation excise taxes collected by the Arizona Department of Revenue on behalf of Maricopa County.

NOTE 9. LONG-TERM DEBT (CONTINUED)

Bonds payable are due in varying annual principal amounts plus varying semiannual interest amounts, except for the 1988 Series A Capital Appreciation Bonds, which are due in annual installments of $21.500 million in 2002 through 2004 with the balance of $8.500 million due in 2005.

Bonds aggregating approximately $523.280 million ($410.105 million of Highway Revenue Bonds and $113.175 million of Transportation Excise Tax Revenue Bonds, respectively) are subject to redemption prior to their maturity dates, at the option of the Transportation Board, in whole at any time, or in part at various interest payment dates. These bonds may be redeemed at various redemption prices ranging from 100 percent to 102 percent of principal, plus accrued interest to the date fixed for redemption. Bonds aggregating approximately $877.335 million are not subject to redemption prior to maturity.

The Bond Resolution adopted by the Transportation Board on July 25, 1986 established a debt service reserve requirement equal to the maximum annual interest due in the current year or future years on any series of outstanding Transportation Excise Tax Revenue Bonds. The Second Supplemental Transportation Excise Tax Revenue Bond Resolution adopted by the Transportation Board on September 22, 1988, gives the Board the option, which it has elected, of acquiring debt service reserve insurance policies in lieu of the debt service reserve requirement. Accordingly, no debt service reserve is reported in the accompanying financial statements. The policies (aggregating $70.064 million at June 30, 2001) were issued by Financial Guaranty Insurance Company, except for the 1993 Series Subordinated Bonds policies, which were issued by MBIA Insurance Corporation, and the 1995 Series A and Series B Subordinated Bonds policies, which were issued by AMBAC Assurance Corporation. These policies are noncancelable and insure payment, up to the policy amount, of the bond interest on their respective payment dates. The policies shall terminate on the earlier of July 1, 2005, or the date when no respective bonds are outstanding under the bond resolution. The premiums on these insurance policies are recorded as expenditures in the year of payment.

The carrying basis of the 1988 Series A Capital Appreciation Bonds increases as a result of accretion of the original issuance discount. At June 30, 2001, the carrying basis was $62.252 million. At maturity on July 1, 2005, the carrying basis will equal the maturity amount of $73 million.

On September 15, 2000, the ADOT issued $113.690 million in Transportation Excise Tax Revenue Bonds (2000 Series) to (1) finance the acquisition of land and the design and construction of certain controlled access highways within Maricopa County, Arizona and (2) pay the costs of issuing the 2000 Series Bonds. The 2000 Series Bonds are due July 1, 2001 through 2005. Net proceeds totaled $115.001 million (after receipt of $1.961 million of reoffering premium and payment of $649 thousand in underwriting fees).

On January 15, 2001, the ADOT issued $143.655 million of Highway Revenue Bonds (Series 2001) to (1) finance portions of the Transportation Board's five year capital programs, and (2) pay costs of issuing the 2001 Series Bonds. The 2001 Series Bonds are due July 1, 2007 through 2020. Net proceeds totaled $150.001 million (after receipt of $7.279 million of reoffering premium and payment of $933 thousand in underwriting fees).

In prior years, the ADOT refinanced various bond issues through advance refunding arrangements. Under the terms of the refunding bond issues, sufficient assets to pay all principal and interest on the refunded bond issues have been placed in irrevocable trust accounts at commercial banks and invested in U.S. Government Securities which, together with interest earned thereon, will provide amounts sufficient for future payment of principal and interest of the issues refunded.

As of June 30, 2001, the principal balance of defeased, refunded bonds is $221.991 million, which accordingly is not included as a liability in the accompanying financial statements.

2. School Facilities Board

On June 1, 2001 the School Facilities Board issued $482.150 million in Education Privilege Revenue Bonds to (1) pay the costs of correcting existing deficiencies in public school facilities for grades K-12, and (2) pay bond-related expenses. The 2001 Series Bonds are due July 1, 2002 through 2019 at interest rates ranging from 3.25% to 5.5%.

Net proceeds totaled $501.281 million including $19.766 million in original issue premiums, minus $911 thousand of underwriter's fees.

3. Universities

a. University of Arizona

Cash and securities on deposit with trustees, restricted for retirement of bonded indebtedness and renewals and replacements, are $370 thousand and $466 thousand respectively, at June 30, 2001, as required by the bond indentures. In addition, $15.427 million was held by trustees for payment of future construction costs, and at June 30, 2001, the University also directly held proceeds totaling $1.424 million of the 1997 System Revenue Bonds for payment of future construction costs.

Principal and interest on bonds outstanding at June 30, 2001, are secured by a pledge of tuition, fees, rentals and other charges, and such obligations are generally callable by the university.

In fiscal years 1977, 1993 and 1998, the University refunded in advance of maturity certain outstanding revenue bonds. At June 30, 2001, the outstanding principal balance of the refunded bonds was $27.585 million that will be paid by investments held in trust with a carrying

value of $24.833 million. These amounts are not included in the accompanying financial statements.

b. Northern Arizona University

In prior years, the University defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in the sinking fund, in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the accompanying financial statements. At June 30, 2001, $1.910 million of such bonds outstanding are considered defeased.

The Student Housing Bonds are payable from revenues of various housing projects. The Series 1991 and 1997 System Revenue Bonds, and the Series 1992 and 1992A System Revenue Refunding Bonds are payable from first liens on certain gross revenues.

c. Arizona State University

In prior years, certain system revenue bonds of the University were in substance defeased through an advance refunding by depositing sufficient U.S. Government securities to pay all future debt service in an irrevocable trust. Accordingly, liabilities for these defeased bonds are not included in the accompanying financial statements. The principal amount of all refunded bonds outstanding at June 30, 2001, is $75.6 million.

The Housing Revenue Bonds are payable from housing revenues as defined in the bond indentures. The Series 1992, 1992A and 1993 System Revenue Refunding Bonds, and the outstanding Series 1989, 1991 and 2000 System Revenue Bonds are payable from Main Campus tuition, fees, certain auxiliary enterprise revenues, and certain other revenues as defined in the bond indentures.

Securities and cash restricted for bond retirement funds and maintenance and replacement reserves held by trustees at June 30, 2001 totaled $17.2 million.

Component Units

4. Arizona Power Authority

In prior years, Arizona Power Authority (APA) defeased various issues of bonds by purchasing United States government securities which were deposited in an irrevocable trust with an escrow agent to provide future debt service on the maturity dates defeased. As a result, these bonds are considered to be defeased and the liability has been removed from the Hoover Uprating Fund. Accordingly, these trust account assets and related liabilities are not included in the accompanying financial statements. As of June 30, 2001, $99.450 million of bonds outstanding are considered to be defeased.

The remaining bonds, totaling $68.945 million, bear interest rates from 4.9% to 5.4% and are due serially from 2003 through 2017. These bonds are secured by the pledged property, as defined by the resolution, which includes the proceeds from the sale of the bonds, rights and interests in various contracts and revenues of the APA.

5. University Medical Center

In January 1991, the University Medical Center issued $50.655 million of Hospital Revenue Bonds (the Series 1991 Bonds). The proceeds of the Series 1991 Bonds were used for the construction of an imaging center, a 110 bed tower for expanded programs, an emergency room, a parking facility, and the expansion and renovation of the surgical suites and other existing facilities.

In March 1992, the University Medical Center issued $28.405 million of Hospital Revenue Bonds (the Series 1992 Bonds) and in May 1993, the University Medical Center issued $54.750 million of Hospital Revenue Refunding Bonds (the Series 1993 Bonds). The proceeds of the Series 1992 Bonds and the Series 1993 Bonds were used to advance refund a portion of the Series 1986, 1987 and 1991 Bonds.

The University Medical Center is subject to certain financial covenants under the Master Trust Indenture (the Indenture), with which the Center is in compliance as of and for the year ended June 30, 2001. In addition, the Indenture places certain restrictions on the incurrence of additional indebtedness and the sale or acquisition of property.

The University Medical Center has established and maintains separate funds for borrowings not yet expended for construction. These funds are held by the trustee and are reported as "Investments held by trustee" in the accompanying combined balance sheets, consisting principally of guaranteed investment contracts.

The bonds or other obligations of the University Medical Center do not constitute general obligations of the Arizona Board of Regents, the University of Arizona, the State of Arizona or any political subdivision thereof.

6. Water Infrastructure Finance Authority

The Water Infrastructure Finance Authority (WIFA) issued Financial Assistance Revenue Bonds in 1992, 1995, 1996, 1997 and 1998. The WIFA also issued Capitalization Revenue Bonds in 1992, 1995, 1996, 1997 and in 1999, WIFA issued Water Quality Refunding Bonds. The bonds are callable and interest is payable semiannually. The bonds are special obligations of the WIFA payable solely from and secured by the WIFA's assets. The bonds are not obligations, general, specific or otherwise, of the State or any other political subdivision thereof other than the WIFA.

NOTE 9. LONG-TERM DEBT (CONTINUED)

The deferred loss on retirement of bonds is being amortized over the lives of the defeased bonds on the straight-line basis. The amortization for the year ended June 30, 2001, is $142 thousand and has been included in interest expense.

Bond premiums are being amortized over the life of the bonds. The amortization for the year ended June 30, 2001, is $29 thousand and is offset against interest expense.

7. Summary of Revenue Bonds

The following schedule summarizes revenue bonds outstanding at June 30, 2001 (expressed in thousands):

Revenue Bonds Outstanding	Dates Issued	Maturity Dates	Interest Rates	Amount Authorized	Amount Issued	Outstanding Balance at June 30, 2001
Primary Government:						
Department of Transportation	1988-2001	2002-2020	3.80-8.80 %	$ 2,298,528	$ 2,298,528	$ 1,389,867
School Facilities Board	2001	2002-2019	3.25-5.50	800,000	482,150	482,150
University Revenue Bonds	1961-2000	2001-2025	3.00-7.10	949,196	876,096	540,019
Proprietary and Fiduciary Fund Types Component Units:						
Arizona Power Authority	1993	2003-2017	4.90-5.40	68,945	68,945	67,599
University Medical Center	1991-1993	2001-2021	5.53-6.86	133,810	133,810	72,725
Water Infrastructure Finance Authority	1992-1999	2005-2017	3.70-6.10	143,715	143,715	137,925

Future debt service principal payments on revenue bond issues for fiscal years ended June 30 are summarized below (expressed in thousands):

	Principal							
	Primary Government				Proprietary and Fiduciary Fund Types Component Units			
Fiscal Year	ADOT	School Facilities Board	Universities	Total Primary Government	Arizona Power Authority	University Medical Center	Water Infrastructure Finance Authority	Total Component Units
2002	$ 201,245	$ 43,035	$ 30,730	$ 275,010	$ -	$ 2,580	$ 5,735	$ 8,315
2003	210,705	16,870	32,530	260,105	1,450	2,715	6,080	10,245
2004	220,140	17,665	34,297	272,102	2,320	2,860	6,450	11,630
2005	231,410	18,575	36,247	286,232	2,545	3,020	7,435	13,000
2006	46,760	19,405	38,305	104,470	2,790	3,185	8,740	14,715
Thereafter	479,607	366,600	367,910	1,214,117	58,494	58,365	103,485	220,344
Total	$ 1,389,867	$ 482,150	$ 540,019	$ 2,412,036	$ 67,599	$ 72,725	$ 137,925	$ 278,249

Principal and interest debt service payments on revenue bonds outstanding at June 30, 2001 are as follows (expressed in thousands):

	Annual Debt Service					
	Primary Government			Proprietary and Fiduciary Fund Types Component Units		
Fiscal Year	Total Principal	Total Interest	Total Primary Government	Total Principal	Total Interest	Total Component Units
2002	$ 275,010	$ 129,340	$ 404,350	$ 8,315	$ 14,623	$ 22,938
2003	260,105	113,984	374,089	10,245	14,231	24,476
2004	272,102	101,505	373,607	11,630	13,737	25,367
2005	286,232	87,836	374,068	13,000	13,146	26,146
2006	104,470	72,663	177,133	14,715	12,464	27,179
Thereafter	1,214,117	437,607	1,651,724	220,344	85,276	305,620
Total	$ 2,412,036	$ 942,935	$ 3,354,971	$ 278,249	$ 153,477	$ 431,726

Changes in revenue bonds for fiscal year 2001 are summarized below (expressed in thousands):

	Primary Government	Component Units	Total Bonds Outstanding
Balance at July 1, 2000	$ 1,904,767	$ 284,142	$ 2,188,909
New bonds issued	739,495	-	739,495
Bonds retired	(236,560)	(6,120)	(242,680)
Amortization of Bond Discount	4,334	256	4,590
Amortization of Bond Premium	-	(29)	(29)
Balance at June 30, 2001	$ 2,412,036	$ 278,249	$ 2,690,285

NOTE 9. LONG-TERM DEBT (CONTINUED)

B. GRANT ANTICIPATION NOTES

On July 11, 2000, the Arizona Department of Transportation issued $39.405 million in Grant Anticipation Notes (Series 2000A) to pay (1) a portion of the costs of acquiring right-of-way for design and construction of certain controlled-access highways in the City of Phoenix, Arizona and (2) a portion of the costs of issuing the Series 2000A Notes. The 2000A Notes are due January 1, 2003, and January 1, 2004. Net proceeds totaled $39.200 million (after payment of $35 thousand in original issue discount and $170 thousand in underwriting fees).

On May 1, 2001, the Arizona Department of Transportation issued $142.890 million in Grant Anticipation Notes (Series 2001A) to pay (1) a portion of the costs of acquiring right-of-way for design and construction of certain controlled-access highways within Maricopa County, Arizona and (2) a portion of the costs of issuing the Series 2001A Notes. The Series 2001A Notes are due January 1, 2004, and January 1, 2008. Net proceeds totaled $147.248 million (after receipt of $5.420 million of reoffering premium and payment of $1.062 million in underwriting fees).

The following schedule summarizes grant anticipation notes outstanding at June 30, 2001 (expressed in thousands):

Grant Anticipation Notes Outstanding	Dates Issued	Maturity Dates	Interest Rates	Amount Authorized	Amount Issued	Outstanding Balances at June 30, 2001
Primary Government						
Department of Transportation	2000-2001	2003-2008	4.00-5.60%	$ 182,295	$ 182,295	$ 182,295

Future debt service principal payments on grant anticipation notes issues for fiscal years ended June 30 are summarized below (expressed in thousands):

	Principal	
	Primary Government	
Fiscal Year	ADOT	Total Primary Government
2002	$ -	$ -
2003	13,150	13,150
2004	36,755	36,755
2005	49,000	49,000
2006	38,540	38,540
Thereafter	44,850	44,850
Total	$ 182,295	$ 182,295

Principal and interest debt service payments on grant anticipation notes outstanding at June 30, 2001 are as follows (expressed in thousands):

	Annual Debt Service		
	Primary Government		
Fiscal Year	Total Principal	Total Interest	Total Primary Government
2002	$ -	$ 10,181	$ 10,181
2003	13,150	8,683	21,833
2004	36,755	7,488	44,243
2005	49,000	5,401	54,401
2006	38,540	3,209	41,749
Thereafter	44,850	1,504	46,354
Total	$ 182,295	$ 36,466	$ 218,761

Changes in Grant Anticipation Notes for fiscal year 2001 are summarized below (expressed in thousands):

	Primary Government	Total Notes Outstanding
Balances at July 1, 2000	$ -	$ -
New Notes Issued	182,295	182,295
Balances at June 30, 2001	$ 182,295	$ 182,295

NOTE 9. LONG-TERM DEBT (CONTINUED)

C. CERTIFICATES OF PARTICIPATION

The State has issued Certificates of Participation (COPs) to finance construction or improvements of office buildings that are primarily leased to State agencies. The COPs mature serially at six-month intervals. The State lease payments are made to a trustee. The lease provides that the obligation of the State to make lease payments is subject to annual appropriation by the State Legislature.

The State records COPs at the outstanding balance less cash with trustee except for the Universities and the Industrial Commission that are recorded at the outstanding balance. The cash with trustee is a reserve for the COPs.

Capitalized interest costs include interest incurred during the construction of an asset.

The 1985 COPs for the Industrial Commission were issued to refund the 1984 certificates that were issued to finance the cost of acquiring and constructing a building. The lease agreement provides that the title will pass to the Industrial Commission at the end of the lease term, once the COPs are completely redeemed. The refunded amount was $17.500 million. This amount is considered paid and is not included in the outstanding amounts.

The February 1992, June 1992 and November 1992 (in part) COPs for the Department of Administration were issued to refund the August 1986, October 1988 and December 1986 certificates, respectively. The total amount refunded was $161.530 million. This amount is considered paid and is not included in the outstanding amounts.

The December 1993 COPs for the Department of Administration were issued to refund the December 1989 and October 1990 certificates. The total amount refunded was $31.815 million. This amount is considered paid and is not included in the outstanding amounts.

On August 9, 2000 the University of Arizona issued Variable Rate Certificates of Participation (Series 2000A Certificates) for $28.300 million. The proceeds are being used to construct the McKale Athletic Performance Center and Heritage Hall, the Mt. Graham International Observatory Power Line and to acquire the existing University Police Department facility. The series 2000A Certificates bear interest at a weekly rate determined by Paine Webber, as remarketing agent, and have a maturity date of June 1, 2025. These Certificates are subject to conversion, at the option of the Arizona Board of Regents, to an adjustable rate, an annual rate or a term rate pursuant to the debt documents. If not converted, the certificates will bear interest at a weekly rate not to exceed 12 percent determined under prevailing market conditions by the remarketing agent.

On April 25, 2001, the University of Arizona issued Certificates of Participation (Series 2001A Certificates) for $31.695 million. The proceeds are being used to renovate and expand the Park Student Union Facility, construct the Learning Services Building and Sixth Street Parking Garage, and to acquire the Tucson Electric Power Company Property. The Series 2001A Certificates include $17.115 million of serial certificates with an average interest rate of 5.12 percent, and maturity dates ranging from 2002 to 2019. The Series 2001A Certificates also include $6.750 million of term certificates due June 1, 2022 and $7.830 million of term certificates due June 1, 2025, with interest rates of 5.00 and 5.125 percent, respectively. The Series 2001A Certificates, maturing on June 1, 2022, are subject to mandatory sinking fund redemption, in part, on June 1 of the years 2020 through 2022, at par, in the amount set forth in the debt documents. The Series 2001A Certificates, maturing on June 1, 2025, are subject to mandatory sinking fund redemption, in part, on June 1 of the years 2023 through 2025, at par, in the amounts set forth in the debt documents.

A summary of the COPs issued as of June 30, 2001, is as follows (expressed in thousands):

Project	Issue Date	Maturity Date	Interest Rates
Arizona State University:			
Towers Project	1991	2010	6.89%
West Campus – Refunding	1993	2009	5.18
Downtown Center 99A	1999	2024	5.75
Downtown Center 99B	1999	2024	8.00
Industrial Commission Special Fund	1985	2005	5.10 – 6.75

NOTE 9. LONG-TERM DEBT (CONTINUED)

Project	Issue Date	Maturity Date	Interest Rates
Department of Revenue/ Department of Economic Security	1992	2005	5.00 - 6.50%
Capitol Center/RTC	1992	2007	3.00 - 6.10
Arizona Municipal Financing Program	1992	2004	3.40 - 6.10
University of Arizona:			
Telecommunications	1991	2012	4.60 - 6.50
Educational	1992	2007	3.20 - 6.25
Residence Life	1994	2014	4.10 - 5.80
Maingate Administration	1994	2024	4.25 - 6.00
Alumni Foundation	1997	2008	3.80 - 4.50
Student Union 99A	1999	2024	5.00 – 5.30
Student Union 99B	1999	2024	Variable not to exceed 12%
Tyndall Garage/Pima Residence Hall	1999	2024	4.20 – 5.75
McKale/UAPD/Mt. Graham	2000	2025	Variable not to exceed 12%
Park Student Union/Ln Svcs, 6th St Gar.	2001	2002-2025	3.40-5.50
School for the Deaf and Blind / Game and Fish	1993	2011	2.75 - 5.00
Prisons*	1991	2005	4.50 - 6.40
AHCCCS	1994	2005	6.66

Project	Amount Authorized and Issued	Outstanding Balance	Cash with Trustee	Net COP Liability
Enterprise Funds				
Industrial Commission Special Fund	$ 17,500	$ 8,700	$ 3,287	$ 5,413
General Long-Term Debt				
Department of Revenue/ Department of Economic Security	22,125	16,330	2	16,328
Capitol Center/RTC	32,895	10,945	5	10,940
Arizona Municipal Financing Program	129,640	94,610	13,131	81,479
School for the Deaf and Blind/Game and Fish	31,250	21,275	2	21,273
Prisons*	55,080	37,305	5,049	32,256
AHCCCS	12,642	5,982	-	5,982
Total General Long-Term Debt	283,632	186,447	18,189	168,258
University Funds:				
Arizona State University:				
Towers Project	4,500	3,110	446	2,664
West Campus – Refunding	46,905	37,060	2,945	34,115
Downtown Center – 99A	5,620	5,620	-	5,620
Downtown Center – 99B	5,165	5,165	65	5,100
University of Arizona:				
Telecommunications	25,995	15,280	3,747	11,533
Educational	4,670	2,655	547	2,108
Residence Life	16,725	13,515	1,504	12,011
Maingate Administrations	16,170	14,790	1,224	13,566
Alumni Foundation	2,965	2,190	318	1,872
Student Union 99A and 99B	58,107	58,344	20,354	37,990
Tyndall Garage/Pima Residence Hall	18,635	18,510	1,253	17,257
McKale/UAPD/Mt. Graham	28,300	28,300	19,204	9,096
Park Student Union/Ln Svcs/6th St Gar.	31,695	31,695	23,287	8,408
Total University Funds	265,452	236,234	74,894	161,340
Total Certificates of Participation	$ 566,584	$ 431,381	$ 96,370	$ 335,011

* The Prisons issue was a sale-leaseback transaction involving two prison units that are a portion of the Eyman Complex at the Arizona State Prison in Florence, Arizona. The proceeds of the issue were used to reimburse the General Fund for the ENSCO settlement.

NOTE 9. LONG-TERM DEBT (CONTINUED)

Principal and interest debt service requirements on COPs outstanding at June 30, 2001, are as follows (expressed in thousands):

Fiscal Year	Annual Debt Service: Total Principal	Total Interest	Total Amount Required
2002	$ 24,634	$ 23,852	$ 48,486
2003	23,948	22,225	46,173
2004	25,217	20,888	46,105
2005	26,707	19,453	46,160
2006	28,462	17,829	46,291
Thereafter	302,413	127,843	430,256
Total	$ 431,381	$ 232,090	$ 663,471

Changes in COPs for fiscal year 2001 are summarized below (expressed in thousands):

Balance at July 1, 2000	$ 393,538
New COPs issued	60,125
COPs retired	(22,282)
Balance at June 30, 2001	$ 431,381

D. LEASES AND INSTALLMENT PURCHASES

1. Leases

The total operating lease expenditures for the fiscal year ended June 30, 2001, were $55.368 million for the primary government and $1.571 million for the Component Units. The future minimum lease payments for long-term operating leases as of June 30, 2001, are summarized below (expressed in thousands):

Fiscal Year	Primary Government: Governmental & Expendable Trust Funds	Proprietary Funds	University Funds	Component Units	Total
2002	$ 27,154	$ 131	$ 2,945	$ 1,945	$ 32,175
2003	20,609	104	1,066	1,498	23,277
2004	14,746	32	599	776	16,153
2005	9,154	3	100	704	9,961
2006	4,056	-	-	694	4,750
Thereafter	3,856	-	-	551	4,407
Total Future Minimum Payments	$ 79,575	$ 270	$ 4,710	$ 6,168	$ 90,723

Many operating leases are for buildings and land leased by State agencies. Although these leases are considered to be long-term, they are cancelable under certain circumstances.

* An agency must be able to cancel the lease if monies are not appropriated to cover the lease expenditures.

* If an agency is ordered to move into State-owned property and a 60-day notice is given, the lease can be canceled without penalty.

* In situations where the use of the leased property is dependent on the use of Federal monies, the lease must be cancelable in the event Federal monies are no longer available.

NOTE 9. LONG-TERM DEBT (CONTINUED)

The State has entered into capital lease agreements for the acquisition of telephone systems, copy machines and other equipment.

The future minimum lease payments for long-term capital leases (all primary government) as of June 30, 2001, are summarized below (expressed in thousands):

Fiscal Year	General Long-Term Debt Account Group	Proprietary Funds	University Funds	Total
2002	$ 1,993	$ 2,477	$ 5,482	$ 9,952
2003	1,768	2,478	7,800	12,046
2004	1,341	2,480	7,267	11,088
2005	1,240	702	5,302	7,244
2006	1,101	-	4,357	5,458
Thereafter	4,172	-	3,575	7,747
Total future minimum payments	11,615	8,137	33,783	53,535
Less: interest and executory costs	2,225	654	4,524	7,403
Net Liability at June 30, 2001	$ 9,390	$ 7,483	$ 29,259	$ 46,132

2. Installment Purchases

The State has installment purchase contracts payable for acquisitions of computer and other equipment. Installment purchases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group. Installment purchases for the University Funds are reported as a long-term obligation, together with the related assets.

The future minimum payments for long-term installment purchases (all primary government) as of June 30, 2001, are summarized below (expressed in thousands):

Fiscal Year	General Long-Term Debt Account Group	Proprietary Funds	University Funds	Total
2002	$ 3,786	$ 8	$ 557	$ 4,351
2003	3,588	-	498	4,086
2004	2,733	-	113	2,846
2005	368	-	6	374
2006	8	-	-	8
Thereafter	-	-	570	570
Total future minimum payments	10,483	8	1,744	12,235
Less: interest and executory costs	724	-	110	834
Net Liability at June 30, 2001	$ 9,759	$ 8	$ 1,634	$ 11,401

NOTE 9. LONG-TERM DEBT (CONCLUDED)

3. Summary of Changes

A summary of the changes in capital leases and installment purchase obligations (all primary government) follows (expressed in thousands):

	Balance July 1, 2000	New Contracts	Principal Reduction	Balance June 30, 2001
General Long-Term Debt Account Group	$ 18,000	$ 9,031	$ 7,882	$ 19,149
Proprietary Funds	9,530	52	2,091	7,491
University Funds	22,360	25,863	17,330	30,893
Total	$ 49,890	$ 34,946	$ 27,303	$ 57,533

E. SUMMARY OF CHANGES IN THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

The following is a summary of changes in the General Long-Term Debt Account Group (expressed in thousands):

Type of Debt	Balance July 1, 2000	Additions	Retirements	Balance June 30, 2001
Revenue Bonds	$ 1,337,108	$ 743,829	$ 208,920	$ 1,872,017
Grant Anticipation Notes	-	182,295	-	182,295
Certificates of Participation	183,451	-	15,193	168,258
Capital Leases	11,585	910	3,105	9,390
Installment Contracts	6,415	8,121	4,777	9,759
Compensated Absences	155,844	136,364	129,913	162,295
Total	$ 1,694,403	$1,071,519	$ 361,908	$ 2,404,014

NOTE 10. INTERFUND TRANSACTIONS

A. INTERFUND BALANCES AND OPERATING TRANSFERS

Interfund balances, as of June 30, 2001, and operating transfers, for the year ended June 30, 2001, are as follows:

Fund	Due From Other Funds	Due To Other Funds	Operating Transfers In	Operating Transfers Out
Primary Government:				
General Fund	$ 116,314	$ 53,778	$ 219,456	$ 1,085,741
Special Revenue Funds:				
State Highway Fund	96,398	33,347	84,939	134,452
Highway User Revenue Fund	12,946	76,151	-	10,937
Maricopa RARF	22,310	-	739	237,353
Tobacco Tax and Healthcare	1,560	-	5,913	59,586
Childrens' Health Insurance Program	-	-	19,838	6,600
Local Agency Deposits	41	-	-	93
Highway Expansion and Extension Loans	33,214	120,715	21,389	13
Other	32,453	17,182	96,221	70,928
Total Special Revenue Funds	198,922	247,395	229,039	519,962
Debt Service Funds:				
Department of Transportation	-	-	86,529	159
Maricopa RARF	-	-	192,278	732
Certificates of Participation	-	-	24,258	796
Grant Anticipation Notes	-	-	1,886	-
Total Debt Service Funds	-	-	304,951	1,687
Capital Projects Funds:				
ADOT Debt Financed	-	-	-	8,228
Maricopa RARF Financed	-	-	-	32,621
Grant Anticipation Notes Financed	-	-	-	148
Other	583	13	20,400	2,270
Total Capital Projects Funds	583	13	20,400	43,267
Enterprise Funds:				
Lottery	-	7,525	-	42,996
Arizona Exposition and State Fair	-	-	-	148
Arizona Highways Magazine	-	-	-	210
Arizona Correctional Industries	-	-	-	312
Arizona Industries for the Blind	-	-	-	409
Healthcare Group of Arizona	-	-	6,465	2,045
Other	1	-	300	659
Total Enterprise Funds	1	7,525	6,765	46,779

NOTE 10. INTERFUND TRANSACTIONS (CONTINUED)

Primary Government (Continued):

Internal Service Funds:				
Risk Management	$ -	$ 297	$ 45	$ 823
Transportation Equipment	266	-	-	866
Technologies and Telecommunications	2,229	11	-	822
Motor Pool	975	1	-	282
Other	171	317	4,400	2,703
Total Internal Service Funds	3,641	626	4,445	5,496
Expendable Trust Funds:				
Unemployment Compensation	-	170	-	2,060
Employee Benefits	416	1,273	203,544	4
Energy Conservation	-	-	-	44
Other	294	4	12,490	2,768
Total Expendable Trust Funds	710	1,447	216,034	4,876
Non-Expendable Trust Funds:				
Land Endowments	1,551	1,213	-	126
Other	2,000	-	2,000	-
Total Non-Expendable Trust Funds	3,551	1,213	2,000	126
Pension Trust Funds:				
State Retirement	-	-	1,848	9,510
Public Safety	-	-	373	1,306
Elected Officials'	-	-	270	108
Corrections Officer	-	-	-	1,579
Total Pension Trust Funds	-	-	2,491	12,503
Investment Trust Funds:				
Central Arizona Conservation District	686	-	-	-
Local Government Investment Pool	14,469	-	-	-
Local Government Investment Pool – Government	860	-	-	-
Total Investment Trust Funds	16,015	-	-	-
Agency Funds:				
Other Treasurer Funds	-	26,069	-	-
Other	153	1,824	-	-
Total Agency Funds	153	27,893	-	-
Total Trust and Agency Funds	20,429	30,553	220,525	17,505
University Funds:	2,799	2,799	781,607	66,697
Total per Financial Statements – Primary Government	$ 342,689	$ 342,689	1,787,188	1,787,134
Component Units:				
Arizona Power Authority			-	24
Water Infrastructure Finance Authority			-	30
Total Reporting Entity			$ 1,787,188	$ 1,787,188

NOTE 10. INTERFUND TRANSACTIONS (CONCLUDED)

B. RESIDUAL EQUITY TRANSFERS

Residual equity transfers occur when non-routine transfers are made from one fund to another. During fiscal year 2001, funds were transferred based upon Senate Bill 1001 passed during the first special session of 1997. In addition, excess funds were transferred to the General Fund and Special Revenue Funds based upon Senate Bill 1003 passed during the 1999 first special session.

During fiscal year 2000, ComCare, Inc., completed a formal plan of liquidation whereby a trust was established to receive ComCare's net assets after settlement of liabilities. Pursuant to the trust agreement, ComCare was required to transfer liquidated amounts to the trust.

For the fiscal year ended June 30, 2001, residual equity transfers were made as follows (expressed in thousands):

	Transfers In	Transfers Out
General Fund	$ 8,594	$ -
Special Revenue Funds:		
Other	1,000	3,311
Enterprise Funds:		
Lottery	-	2,283
Arizona Exposition and State Fair	-	2,000
Arizona Highways Magazine	-	500
Arizona Correctional Industries	-	1,000
ComCare	-	7,000
Internal Service Funds:		
Transportation Equipment	-	500
Expendable Trust Funds:		
Other	7,000	-
Total Residual Equity Transfers	$ 16,594	$ 16,594

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS

A. ENTERPRISE FUNDS

The State groups its Enterprise Funds as follows:

* Industrial Commission - Administers and enforces the employment laws of the State, including the regulation of workers' compensation.

* Lottery - Accounts for lottery ticket revenues, administrative and operating expenses and distribution of revenues to other Funds.

* Arizona Exposition and State Fair - Provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

* Arizona Highways Magazine - Publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

* Arizona Correctional Industries - Employs prison inmates in its manufacturing, service and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

* Arizona Industries for the Blind - Accounts for the manufacturing, sale, distribution and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

* Healthcare Group of Arizona (HCGA) - Administers prepaid medical coverage primarily to small uninsured businesses with 2 - 50 employees and employees of political subdivisions. The HCGA processes premium billing, collections and fund disbursement, and data analysis and is responsible for the regulatory oversight of the health plans.

* ComCare, Inc. - A nonprofit corporation responsible for the administration, coordination and delivery of comprehensive behavioral health services to residents of Maricopa County through a network of more than 130 provider agencies/individuals.

* Other Enterprise Funds - Consists of Arizona Historical Society Revolving Fund, Game and Fish Publications Revolving Fund, Department of Library and Archives Gift Shop Revolving Fund, Southern Arizona Mental Health Center Enterprise Fund, Land Department Resource Analysis Revolving Fund, State Parks Publications and Souvenirs Revolving Fund, Real Estate Printing Revolving Fund, Education Commodity Fund, Indian Affairs Commission Publications Revolving Fund, the School for the Deaf and Blind Facilities Use Fund, the State Home for Veterans, the Cooperative State Purchasing Agreement Fund and the Arizona Beef Council.

B. PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS

* State Compensation Fund – Established by the Legislature for the purpose of insuring employers against liability for workers' compensation; occupational disease compensation; and medical, surgical and hospital benefits.

* University Medical Center - A 365-bed, general acute-care teaching facility in Tucson, Arizona. It is the primary teaching hospital for the College of Medicine, College of Nursing and the College of Pharmacy for the University of Arizona.

* Arizona Power Authority - Purchases the State's allocation of Hoover power and resells it to Arizona entities that are eligible purchasers under federal and state laws. Hoover power is produced by the Bureau of Reclamation at the federally-owned Boulder Canyon Project hydropower plant, located near Las Vegas, Nevada.

* Water Infrastructure Finance Authority (WIFA) - The WIFA is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act) which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has entered into an agreement this year with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act.

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS (CONTINUED)

Enterprise Funds segment information for the fiscal year ended June 30, 2001, is shown below (expressed in thousands):

Description	Industrial Commission	Lottery	Arizona Exposition and State Fair	Arizona Highways Magazine
Operating Revenues	$ 19,206	$ 273,982	$ 10,453	$ 10,580
Operating Expenses:				
Depreciation	543	308	964	314
Other	10,748	227,616	10,405	10,554
Operating Income (Loss)	7,915	46,058	(916)	(288)
Net Non-Operating Income (Loss)	(362)	-	706	151
Capital Contributions	-	-	-	-
Operating Transfers In	-	-	-	-
Operating Transfers Out	-	(42,996)	(148)	(210)
Net Income (Loss)	$ 7,553	$ 3,062	$ (358)	$ (347)
Current Assets	$ 37,924	$ 31,292	$ 6,483	$ 6,570
Current Liabilities	48,509	32,655	133	4,733
Net Working Capital	$ (10,585)	$ (1,363)	$ 6,350	$ 1,837
Property and Equipment:				
July 1, 2000	$ 19,671	$ 8,699	$ 22,808	$ 3,421
Additions	870	51	260	6
Deletions	-	49	60	10
June 30, 2001	$ 20,541	$ 8,701	$ 23,008	$ 3,417
Certificates of Participation	$ 7,400	$ -	$ -	$ -
Contributed Capital	$ -	$ -	$ -	$ 1,539
Residual Equity Transfer Out	$ -	$ (2,283)	$ (2,000)	$ (500)
Total Assets	$ 274,926	$ 41,703	$ 11,406	$ 8,326
Total Liabilities	194,853	33,028	277	4,733
Fund Equity	$ 80,073	$ 8,675	$ 11,129	$ 3,593

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS (CONTINUED)

Arizona Correctional Industries	Arizona Industries for the Blind	Healthcare Group of Arizona	ComCare	Other Enterprise Funds	Total
$ 17,872	$ 16,571	$ 21,024	$ 912	$ 11,979	$ 382,579
736	451	9	-	484	3,809
16,063	17,846	25,580	327	10,187	329,326
1,073	(1,726)	(4,565)	585	1,308	49,444
412	1,154	491	(230)	2	2,324
-	-	-	-	56	56
-	-	6,465	-	300	6,765
(312)	(409)	(2,045)	-	(659)	(46,779)
$ 1,173	$ (981)	$ 346	$ 355	$ 1,007	$ 11,810
$ 11,983	$ 4,185	$ 7,947	$ 4,421	$ 3,076	$ 113,881
1,570	1,732	4,652	3,550	233	97,767
$ 10,413	$ 2,453	$ 3,295	$ 871	$ 2,843	$ 16,114
$ 8,799	$ 6,346	$ 76	$ 2	$ 14,486	$ 84,308
694	261	-	-	183	2,325
637	-	-	2	163	921
$ 8,856	$ 6,607	$ 76	$ -	$ 14,506	$ 85,712
$ -	$ -	$ -	$ -	$ -	$ 7,400
$ 3,189	$ 927	$ -	$ -	$ -	$ 5,655
$ (1,000)	$ -	$ -	$ (7,000)	$ -	$ (12,783)
$ 15,364	$ 6,681	$ 7,967	$ 4,421	$ 15,052	$ 385,846
1,780	1,902	4,652	3,550	233	245,008
$ 13,584	$ 4,779	$ 3,315	$ 871	$ 14,819	$ 140,838

NOTE 11. SEGMENT INFORMATION FOR ENTERPRISE FUNDS AND PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS (CONCLUDED)

Proprietary and Fiduciary Fund Types Component Units segment information for the fiscal year ended June 30, 2001 and December 31, 2000, is shown below (expressed in thousands):

	Proprietary Fund Types			Fiduciary Fund Type	
Description	State Compensation Fund	University Medical Center	Arizona Power Authority	Water Infrastructure Finance Authority	Total
Operating Revenues	$ 395,621	$ 263,809	$ 20,734	$ 9,268	$ 689,432
Operating Expenses:					
Depreciation and Amortization	2,084	17,872	37	-	19,993
Other	299,238	253,106	21,413	2,277	576,034
Operating Income (Loss)	94,299	(7,169)	(716)	6,991	93,405
Net Non-Operating Income (Loss)	(1,820)	419	225	912	(264)
Capital Contributions	-	-	-	40,972	40,972
Operating Transfers Out to Primary Government	-	-	(24)	(30)	(54)
Net Income (Loss)	$ 92,479	$ (6,750)	$ (515)	$ 48,845	$ 134,059
Current Assets	$ 367,954	$ 89,659	$ 14,675	$ 47,717	$ 520,005
Current Liabilities	298,011	38,615	4,623	3,974	345,223
Net Working Capital	$ 69,943	$ 51,044	$ 10,052	$ 43,743	$ 174,782
Property and Equipment:					
January 1, 2000 and July 1, 2000	$ 56,893	$ 259,902	$ 1,193	$ -	$ 317,988
Additions	767	16,498	1	-	17,266
Deletions	608	272	2	-	882
December 31, 2000 and June 30, 2001	$ 57,052	$ 276,128	$ 1,192	-	334,372
Revenue Bonds	$ -	$ 70,145	$ 67,599	$ 137,925	$ 275,669
Contributed Capital	$ -	$ -	$ 9	$ 138,564	$ 138,573
Total Assets	$ 2,603,915	$ 219,817	$ 75,747	$346,523	$3,246,002
Total Liabilities	2,106,192	126,201	72,222	142,234	2,446,849
Fund Equity	$ 497,723	$ 93,616	$ 3,525	$ 204,289	$ 799,153

NOTE 12. FUND EQUITY

A. FUND BALANCES RESTATEMENT

Fund Balances at June 30, 2000, have been restated as follows (expressed in thousands):

	Primary Government	Fiduciary Fund Type	
	Special Revenue	Non-Expendable Trust	University
Fund Balances at June 30, 2000 as previously reported	$ 1,197,373	$ 1,068,508	$ 3,107,637
Fund Reclassification:			
Department of Transportation Local Agency Deposits Fund	5,654		
Prior Period Adjustments:			
University of Arizona Restricted Funds			(29,549)
Land Endowments Fund		3,756	
Fund Balances at July 1, 2000 as restated	$ 1,203,027	$ 1,072,264	$ 3,078,088

1. Fund Reclassification

Accounting and reporting treatment applied to a fund is determined by its measurement focus. The following funds' measurement focus changed during the fiscal year:

The Department of Transportation's Local Agency Deposits Fund was shown as an Agency Fund in fiscal year 2000, and has been reclassified as a Special Revenue Fund in fiscal year 2001.

2. Prior Period Adjustment-Correction of an Error in Applying General Accepted Accounting Principles

In previous years, the University of Arizona did not record the advance funding for sponsored research programs as deferred revenue. In fiscal year 2001, the University of Arizona made a one-time adjustment to reflect the cumulative effect of the advance funding of research programs. Beginning in fiscal year 2001, advance funding for sponsored research programs is recognized as deferred revenue. As a result, fund balance at June 30, 2000 has been restated.

3. Prior Period Adjustment-Correction of an Error

In previous years, the Land Endowments Fund erroneously recorded deferred revenues for 10 and 50 year right of ways. The above restatement reflects the amount that should have been recorded as revenues in prior years.

B. CHANGES IN CONTRIBUTED CAPITAL

The changes in contributed capital for fiscal year 2001 are shown below (expressed in thousands):

	Beginning Balance July 1, 2000	Additions Contributed Capital Transfers In	Ending Balance June 30, 2001
Enterprise Funds:			
Arizona Highways Magazine	$ 1,539	$ -	$ 1,539
Arizona Correctional Industries	3,180	9	3,189
Arizona Industries for the Blind	927	-	927
Internal Service Funds:			
Transportation Equipment	5,793	529	6,322
Technologies and Telecommunications	687	1,024	1,711
Motor Pool	17,957	710	18,667
Other	-	8	8
Component Units:			
Arizona Power Authority	9	-	9
Water Infrastructure Finance Authority	135,047	3,517	138,564

NOTE 12. FUND EQUITY (CONTINUED)

C. FUND BALANCES / RETAINED EARNINGS DETAIL

The following schedule details fund balances at June 30, 2001 (expressed in thousands):

	Governmental Fund Types				Fiduciary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Trust	University
Fund Balances:						
Reserved for:						
Budget stabilization fund	$ 373,351	$ -	$ -	$ -	$ -	$ -
Highway construction	-	172,261	-	250,890	-	
Inventory	1,371	-	-	-	-	-
Loans and financial assistance	-	80,791	-	-	-	-
School Facilities Improvements	-	499,055	-	-	-	-
Retirement benefits	-	-	-	-	27,161,559	-
Trust principal	-	-	-	-	2,361,812	-
Continuing appropriations	92,616	67,419	-	76,817	1,620	-
Debt service	-	-	22,922	-	-	-
Pool participants net assets	-	-	-	-	3,464,616	-
Other	603	13,743	-	17	-	-
Restricted	-	-	-	-	-	308,997
Unreserved:						
Designated	-	-	-	-	-	289,825
Undesignated	912,423	739,762	-	44,889	-	-
Total	$ 1,380,364	$ 1,573,031	$ 22,922	$ 372,613	$ 32,989,607	$ 598,822

Restricted fund balances for University Funds represent restrictions for U.S. Government grants refundable, endowments, quasi-endowments, restrictions for outstanding purchase orders, investment in joint venture and other restrictions of $27.626, $139.941, $44.169, $20.825, $14.000 and $62.436 million, respectively.

Designated fund balances for University Funds represent designations for outstanding purchase orders and other commitments, quasi-endowments, summer sessions, funding of ensuing year's budget and other designations of $29.924, $45.201, $11.308, $0.100 and $203.292 million, respectively.

The following schedule details retained earnings at June 30, 2001, (expressed in thousands):

	Proprietary Fund Types		
	Enterprise	Internal Service	Component Units
Retained Earnings:			
Reserved for:			
Capital outlay	$ 1,229	$ -	$ 4,191
Replacement of equipment	-	-	1,001
Continuing appropriations	5,270	1,004	-
Other	47	-	1,443
Unreserved	128,637	(124,634)	156,222
Total Retained Earnings (Deficits)	$ 135,183	$ (123,630)	$ 162,857

NOTE 12. FUND EQUITY (CONCLUDED)

D. FUND DEFICIT

The Internal Service Funds deficit results from the Risk Management Fund net losses in prior years. The Risk Management Fund deficit of $195.920 million is primarily due to the State's policy of funding 50% of the actuarially determined liability. However, 100% of the liability is recorded for financial statement purposes. In addition, property and liability insurance losses increased in FY 2001. The Risk Management Fund accumulated deficit at June 30, 2001, should be recovered through annual adjustments to insurance billings. The entire liability is reflected in the Internal Service Funds, rather than being allocated to other funds, to assist financial statement users in their understanding and analysis of the Risk Management Fund.

NOTE 13. RELATED PARTY TRANSACTIONS

A. ARIZONA STATE UNIVERSITY

Not included in the accompanying financial statements are six financially interrelated organizations that are nonprofit corporations controlled by separate Boards of Directors whose goals are to support Arizona State University. Financial statements of these organizations are audited by independent auditors.

Four of these financially interrelated organizations (the Arizona State University Alumni Association, Arizona State University Foundation, Sun Angel Foundation and the Sun Angel Endowment) receive funds primarily through donations and dues, and contribute funds to the University for support of various programs.

A fifth financially interrelated organization, Price-Elliott Research Park, Inc. (Park), is developing a research park to promote and support research activities, in coordination with the University. In developing the research park, the Park has issued bonds guaranteed by the University.

As of June 30, 2001, the Park had $18.1 million of revenue bonds outstanding at an average interest rate of 5.26%. The debt service on the bonds is secured by a subordinated lien on University Main Campus revenues. Park revenues are not pledged in order to provide development flexibility to the Park.

Annual debt service on the Park bonds will be $1.0 million in fiscal year 2002 and varies from a low of $900 thousand in fiscal year 2004 to a high of $1.7 million in fiscal year 2006. The University is obligated to pay the annual debt service, if not paid by the Park, under a debt service assurance agreement.

Beginning in fiscal year 1990, the University provided operating cash advances to the Park repayable with interest to the University (1) upon the Park's total gross receipts for a fiscal year exceeding its total disbursements for that fiscal year and (2) before any Park surpluses are transferred to the Arizona State University Foundation, for the benefit of Arizona State University. The last year for cash transfers to the Park was fiscal year 1998. Since the Park's repayment to the University was dependent upon successful future operations and entering into additional land leases, the transfers to the Park were recorded by the University as current year expenditures when made and not as an asset on the University's balance sheet. Total cash advances repayable to the University at June 30, 2001, including the accrued interest, totaled $7.5 million. During fiscal year 2001, the Park repaid $1.1 million to the University, with this amount being recorded as other revenues with the timetable for future repayments dependent upon the Park entering into additional land leases.

A sixth financially interrelated organization, the Collegiate Golf Foundation, operates a University-owned golf course.

Assets, net assets, and revenues for these organizations for the most recent fiscal year for which audits have been completed aggregated $308.9, $247.8, and $91.1 million, respectively, with substantially all of the net assets being donor restricted or endowment funds.

B. NORTHERN ARIZONA UNIVERSITY

The financial activities of the Northern Arizona University Foundation, Inc., are not included in the accompanying financial statements. The foundation is a nonprofit corporation controlled by a separate Board of Directors. The goals of the foundation are to promote the cause of education and the objectives of the University.

C. UNIVERSITY OF ARIZONA

The accompanying financial statements do not include the operations of the University of Arizona Foundation, Inc., the University Physicians, Inc., the Arizona Research Park Authority, and the Campus Research Corporation.

The University of Arizona Foundation, Inc. (Foundation) is a nonprofit corporation controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University of Arizona through various fund-raising activities, and to contribute funds to the University for support of various programs. According to the audited financial statements of the Foundation for the year ended

NOTE 13. RELATED PARTY TRANSACTIONS (CONCLUDED)

June 30, 2000, assets, liabilities, revenues, and expenditures totaled $275, $33, $68 and $49 million, respectively.

The University Physicians, Inc. (UPI) is a nonprofit corporation established to support the University of Arizona in achieving its teaching and research missions through the provision of patient care. The UPI is controlled by a Board of Directors, comprised of the Dean, three faculty physicians, a representative of the twelve clinical department heads and three community members. According to the audited financial statements of UPI for the year ended June 30, 2000, assets, liabilities, revenues and expenditures totaled $89, $48, $127 and $125 million, respectively.

The Arizona Research Park Authority (ARPA) is a nonprofit corporation created under the auspices of the Arizona Board of Regents (ABOR) and designated by Arizona law as a political subdivision of the State, governed by a separate board of directors which by law may not include officers or employees of ABOR. The ARPA was established under the State's industrial development authority statute to assist in the acquisition, improvement, and operation of university research parks and related properties. In August 1994, ARPA, with the approval of ABOR, sold $98 million of nontransferable special revenue bonds to International Business Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, the University of Arizona Science and Technology Park or the "Park"). The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides in the University and neither the Park nor any payments by the University secures ARPA's bonds. Since the original transaction, IBM has reduced its leasehold to 70% of the building space for periods up to the remaining term of 23 years. Audited financial statements are not available.

The Campus Research Corporation (CRC) is a nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement, and operation of the Park and related properties. The CRC leases from the University the remaining 30% of the building space of the Park that is not leased to ARPA (see preceding paragraph). The CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing to the University or to third parties currently existing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The University is responsible for payment of operational expenses associated with the space occupied by the University departments, offices, and programs. All income received by the CRC from its activities, after payment of expenses and financial reserves, will be distributed to the University.

The CRC's June 30, 2001, audited financial statements disclosed:

- $11.274 million total assets, including $5.741 million of net intangible assets, the major components of which relate to leasehold interest and deferred leasing costs.
- $4.709 million total liabilities, including $3.780 million long-term debt in the form of two collateralized notes payable to Wells Fargo, Arizona.
- $5.925 million total revenues, primarily consisting of rental income from the Park and related properties.
- $4.445 million total expenses, including $1.861 million of project operating costs and $686 thousand amortization of intangible assets.

The CRC's audited financial statements may be obtained by writing to P.O. Box 210066, Tucson, Arizona 85721-0066.

D. UNIVERSITY MEDICAL CENTER

The University Medical Center (UMC) and the University of Arizona (the University) both provide and receive services from each other under various contracts. Payments to the University by the UMC include resident and intern salaries, utilities, ground maintenance, mailroom operations and various administrative functions. Amounts paid to the University for these services were $13.928 million for the year ended June 30, 2001.

The UMC has entered into contractual agreements with the University to provide support for the academic mission of the University. Charges to the University for such services and facilities provided by the UMC were $9.729 million for the year ended June 30, 2001. These amounts are included in other operating revenue in the accompanying financial statements.

University Physicians, Inc. (UPI) is a not-for-profit corporation whose members are physicians employed by the University and who practice at the UMC. The UMC has agreements with UPI whereby the UPI provides physician and other services to the UMC. Additionally, the UMC provides various services to the UPI.

NOTE 14. JOINT VENTURE

UNIVERSITY OF ARIZONA

The University of Arizona (the University) is a participant in the Large Binocular Telescope Corporation (LBT). The LBT was formally incorporated as a not-for-profit corporation in August 1992, pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the University and the Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate and maintain a binocular telescope currently being constructed in Arizona. The current members of the LBT are the University, Arcetri Research Corporation, Ohio State University and the LBT Beteiligungsgesellschaft.

The University has committed resources equivalent to 25% of the project's construction costs and the LBT's annual operating costs. As of June 30, 2001, the University has made cash contributions of $14.0 million toward the project's construction costs. The University's financial interest represents its future viewing/observation rights. Upon completion of construction, viewing rights will be divided equally among the participants in proportion to their contributions. According to the audited financial statements of the LBT for the year ended December 31, 2000, assets, liabilities, revenues and expenditures totaled $71.0 million, $2.0 million, $10.0 million and $700 thousand, respectively.

The LBT's separate audited financial statements can be obtained from the LBT Project Office, Steward Observatory, University of Arizona, Tucson, AZ 85721-0065.

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE

A. RISK MANAGEMENT INSURANCE LOSSES

The Department of Administration - Risk Management Section manages the State's property, environmental, liability and workers' compensation losses. The State has determined that the management of these losses can be performed effectively and efficiently through the Risk Management Section. Consequently, all agencies and the State's three universities are required to participate in this program. The State's Risk Management Section evaluates the proper mix of purchased commercial insurance and self insurance annually.

The Industrial Commission provides payment of workers' compensation losses which are not covered by the State Compensation Fund, the Department of Administration – Risk Management Section, private insurance carriers, or self-insured employers. The workers' compensation claims paid by the Industrial Commission encompass losses against uninsured or underinsured employers, insolvent insurance carriers' payments for vocational rehabilitation, medical conditions incurred prior to 1973, apportionment claims for pre-existing industrial and non-industrial related physical impairments and compensation for loss of earnings associated with the disability. The Industrial Commission is totally self-insured.

The management and payment of these losses is accomplished through the funding mechanism of the Risk Management Fund (Internal Service Fund) and the Industrial Commission Fund (Enterprise Fund). As discussed in the following paragraph, an independent annual actuarial analysis is performed to evaluate the needed funding. The Risk Management Section will assess each agency an annual portion of the necessary funding for the Risk Management Fund based on their exposures and prior loss experience. Interest and dividend earnings of the investments currently fund the Industrial Commission Fund. To provide funding for workers' compensation claims, the Industrial Commission could direct payment to the State Treasurer an amount not to exceed one and one-half percent of all premiums received by the State Compensation Fund, private carriers and self-insured plans during the immediately preceding calendar year. No such assessments have been made by the Commission since January 1992.

The State records claims liability when the reported loss is probable and reasonably estimated. On an annual basis, independent actuarial firms are engaged to estimate the State's total year-end outstanding claims liability, which takes into account recorded claims and related allocated claims adjustment expenditures, salvage, subrogation, loss development factors and an estimate for incurred but not reported claims.

The Industrial Commission Fund discounts all benefit reserves at three and one-half percent, except for medical. Medical benefits are discounted at an assumed inflation rate equal to the investment rate of return earned by the Industrial Commission Fund.

Occasionally, the Risk Management Section agrees with claimants to purchase an annuity contract to settle these specific claims when it is determined that it is in the best interest of the State to do so. In these instances, the State requires the claimant to sign an agreement releasing the State from any further obligation. In addition, the State requires that a third party assignment company be named in the contract should the annuity company fail to perform its obligations under the annuity contract. As a result of these requirements, the likelihood that the State will be required to make future payments on these claims is remote.

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE (CONTINUED)

There have been no significant reductions in the current fiscal year insurance coverage. There have been no settlements that have exceeded insurance premium coverage in the last three years.

The following table presents the changes in long-term claims liability balances during fiscal years ended June 30, 2000 and June 30, 2001 (expressed in thousands):

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claims Payments	Ending Balance
Risk Management Fund:				
2000	$ 219,748	$ 45,771	$ 52,443	$ 213,076
2001	213,076	86,652	66,051	233,677
Industrial Commission Fund:				
2000	153,983	14,681	11,005	157,659
2001	157,659	5,241	12,430	150,470

B. LITIGATION

In *Ladewig vs. Killian,* the plaintiffs challenge the constitutionality of deductions given for dividends received from corporations doing most of their business in Arizona. The Court dismissed action for failure to exhaust administrative remedies. Plaintiff lost at the Board of Tax Appeals and appealed to Tax Court. The Tax Court certified a class and ruled for the taxpayer on the merits. The Department of Revenue sought special action review of the certification of a class, and the Court of Appeals overturned class certification, holding that only taxpayers who had exhausted administrative remedies could be included in a class. The Arizona Supreme Court reversed and lower courts will have to resolve issues of notice and refund procedures. Substantial refunds in the range of $200 million to $500 million will have to be paid. A reasonable estimate of the actual liability cannot be determined at this time. As a result, no liability is recorded by the State.

In *Kerr vs. Waddell,* federal employees have claimed an income tax refund on taxes paid on Federal employee contributions. The Board of Tax Appeals granted these claims for the years before 1991, but has denied the claim for later years. The State did not appeal. The plaintiffs appealed for years after 1990. The Tax Court has denied class certification but has ruled for the plaintiffs on the merits regarding entitlement to refunds for years after 1990. The State appealed the substantive law issue and the plaintiffs appealed the denial of class certification. The Court of Appeals ruled for the State on the substantive law issue and the denial of class certification. The potential outcome is uncertain at this time. If this case were to have an unfavorable outcome, the State could incur losses ranging from $20 million to $100 million.

In *Hurley Trucking vs. Arizona Department of Transportation,* claimants allege that travel on state, county and city roads built on right-of-ways that cross federal land is not taxable. The Arizona Tax Court has ruled in favor of Hurley and the Arizona Department of Transportation has appealed. The potential outcome is uncertain at this time. If the case were to have an unfavorable outcome, the State could incur losses ranging from $72 to $250 million.

In *Flores vs. State of Arizona,* the plaintiffs allege that the State has failed to adequately fund and administer bilingual education for limited English proficient (LEP) students residing in Nogales, Arizona. On January 24, 2000, the court issued an opinion finding for the plaintiffs on the funding issues, but finding that plaintiffs had not adequately alleged their Arizona Instrument to Measure Standards test (AIMS) claims. The plaintiffs filed a motion for post-judgement relief on July 14, 2000, requesting that the court order the State to perform a cost study to determine the amount of funding necessary to comply with federal law regarding the education of LEP students. The court granted that motion on October 12, 2000, and in response, the Arizona Department of Education commissioned a study of the cost per student of English immersion education. On May 22, 2001, after the close of the last regular legislative session when no additional funding for LEP students was appropriated, the plaintiffs filed a motion of injunctive relief, requesting that the Court set a deadline for the State to comply with the Court's January 24, 2000, order. The Court granted the motion on June 25, 2001, and ordered that the State must comply with the Court's January 24, 2000, order on or before January 31, 2002, or the date of the adjournment of the November 13 , 2001, special legislative session which ever is earlier. Should the legislature fail to provide additional funding for the education of LEP students in the November 13, 2001, special legislative session, the court will attempt to order such an appropriation or to force

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE (CONTINUED)

it by threatening action, such as the closure of schools that was threatened by the Arizona Supreme Court in previous school financing litigation or the withholding of some or all federal funding to the State. Funding bilingual education could cost as much as $200 million annually.

In *Roosevelt Elementary School District No. 66 vs. Jane Dee Hull*, the plaintiffs allege the State failed to fully fund the Building Renewal Fund established by the Students FIRST legislation. On October 13, 2000, the court held that the State did not violate the statutory provisions regarding funding of the Building Renewal Fund for fiscal year 1998-99. However, the court held that neither party was entitled to summary judgement regarding funding for fiscal year 1999-00, and that in order to prevail on that claim, the plaintiffs would have to demonstrate that they were injured by the alleged underfunding. On May 25, 2001, the plaintiffs again moved for summary judgement as to the level of funding for fiscal year 1999-00. On October 6, 2001, the State responded to the plaintiff's motion and cross-moved for summary judgment on the same issue. Briefing on the parties' new motions for summary judgment should be completed early next year. The potential outcome is unknown at this time. If the case were to have an unfavorable outcome, the State may be required to provide approximately $25 million in additional funding.

The State has a variety of claims pending against it that arose during the normal course of its activities. Management believes, based on advice of legal counsel, that losses, if any, resulting from settlement of these claims will not have a material effect on the financial position of the State. All losses for any unsettled litigation or contingencies involving workers compensation, medical malpractice, construction and design, highway operations, employment practices, criminal justice, fidelity and surety, environmental property damage, general liability, environmental liability, building and contracts, auto liability, or auto physical damage are determined on an actuarial basis and included in the Accrued Insurance Losses of the Internal Service Funds.

C. AUDITED FINANCIAL STATEMENTS

The four State pension plans and certain State agencies, commissions and authorities are audited by independent public accountants. Copies of these audits, as well as audits performed by the State Auditor General, are available from the State Library, Archives and Public Records.

D. ACCUMULATED SICK LEAVE

State employees are eligible to receive payment for an accumulated sick leave balance of 500 hours or more with a maximum of 1500 hours upon retirement directly from State service. The benefit value is calculated by taking the State employee's hourly rate of pay at the retirement date, multiplied by the number of sick hours at the retirement date times the eligibility percentage. The eligibility percentage varies based upon the number of accumulated sick hours from 25 percent for 500 hours to a maximum of 50 percent for 1500 hours. The maximum benefit value is $30,000. The benefit is paid out in annual installments over three years. The Retiree Accumulated Sick Leave Fund is accounted for on the financial statements as an Expendable Trust Fund and accounts for the current portion of retiree accumulated sick leave. The long-term portion of the accrued liability is recorded in the General Long-Term Debt Account Group. Unused accumulated sick leave of employees of the State, excluding Universities, at June 30, 2001, totaled $262.904 million.

E. UNCLAIMED PROPERTY

The State of Arizona's Uniform Unclaimed Property Act requires deposit of certain unclaimed assets into a managed Agency Fund. ARS §44-313 requires a separate trust fund of not less than $100 thousand to be retained for prompt payment of claims. The excess amount, above that which is required to be retained, is required to be deposited to the General Fund where it is included as other revenue. Under a statute that took effect July 1, 1990, up to $1.0 million in unclaimed utility deposits is deposited in the Utility Assistance Fund to help low-income and elderly people make utility deposits and repairs. Fifty-five and twenty percent of the remaining net cash collected, after refunds, is transferred to the Department of Commerce Housing Fund to be used for low-cost housing and the State Treasurer for distribution as provided for in ARS §5-113, respectively. The balance is to be deposited in the General Fund. For fiscal year 2001, $905 thousand was deposited in the Utility Assistance Fund, $11.734 million was deposited in the Housing Fund, $4.267 million was deposited with the State Treasurer and $4.310 million was deposited in the General Fund. A total of approximately $186.010 million has been remitted since inception of the fund. In addition, the State is also holding stock valued at $15.651 million. The remittances to the General Fund and the holdings by the State represent contingencies, as claims for refunds can be made by the owners of the property. The Governmental Accounting Standards Board requires that a liability be reported to the extent that it is probable that escheat property will be reclaimed and paid to claimants. This liability is also reported as a reduction of revenue. This liability is reported in the General Fund because it is the fund to which the property ultimately escheats in Arizona. At June 30, 2001, this amount, reported as Due to Others in the General Fund, is $73.986 million.

F. CONSTRUCTION COMMITMENTS

The Arizona Department of Transportation had outstanding commitments under construction contracts of approximately $974.163 million at June 30, 2001.

NOTE 15. COMMITMENTS, CONTINGENCIES AND COMPLIANCE (CONCLUDED)

G. ARIZONA STATE LOTTERY

Annuities are purchased for all prizes over $400,000 for which winners will receive the jackpot in annual installments for the Pick on-line game. These annuities are purchased from qualifying insurance companies which have the highest ratings from among A.M. Best Company, Standard & Poor's, Moody, Duff & Phelps or Weiss. The Lottery remains contingently liable on all annuities. Aggregate future payments to prize winners on existing annuities totaled approximately $351.6 million at June 30, 2001. Approximately $232.55 million of the total aggregate future payments relates to annuities purchased from five separate insurance companies, of which approximately $105.09 million relates to a single insurance company.

In 1994, an insurance company from which the Lottery purchased annuities during the period 1983 through 1989 was placed under State supervision. At June 30, 2001, remaining aggregate minimum future payments on such purchased annuities approximated $13.744 million. In 1997, an insurance company from which the Lottery purchased annuities in 1986 was placed under State supervision. At June 30, 2001, remaining aggregate minimum future payments on such purchased annuities approximated $2.854 million. During 1999, an insurance company from which the Lottery purchased annuities in 1984 was placed under State supervision but as of June 30, 2001, was removed from State supervision. At June 30, 2001, remaining aggregate minimum future payments on such purchased annuities approximated $569 thousand. As of June 30, 2001, all three insurance companies were current in their required annuity payments. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the operations or financial position of the Lottery.

NOTE 16. TOBACCO SETTLEMENT

The State is one of many states participating in the settlement of litigation with the tobacco industry over the reimbursement of healthcare costs. The settlement money is intended to compensate the State for costs it has incurred in providing health and other services to its citizens that were necessitated by the use of tobacco products. The State expects to receive settlement payments through 2025.

The State received $123.172 million in fiscal year 2001. Future settlement payments are subject to several adjustments, but the amounts are not presently determinable. These adjustments include a "volume adjustment," which could reflect any decreasing cigarette production under a formula that also takes into account increased operating income from sales. Other factors that might affect the amounts of future payments include ongoing and future litigation against the tobacco industry and the future financial health of the tobacco manufacturers. Because the net realizable value of the future settlement payments is not measurable, the State did not record a receivable for the future payments at June 30, 2001.

NOTE 17. CONDUIT DEBT

In November 1998, the Greater Arizona Development Authority (GADA), part of the primary government, issued $13.27 million in Infrastructure Revenue Bonds, Series 1998 for public infrastructure projects in the communities of Avondale, Goodyear and Winslow.

In May 2000, GADA issued $18.93 million in Infrastructure Revenue Bonds, Series 2000A for public infrastructure projects in the communities of Cottonwood and Gilbert.

On February 15, 2001, GADA issued $2.75 million Infrastructure Revenue Bonds, Series 2001A for public infrastructure projects in the communities of Cottonwood and Holbrook.

The State appropriated $20 million to GADA for the express purpose of securing bonds issued by the GADA. The Series 1998 Bonds, the Series 2000A Bonds and the Series 2001A Bonds were issued by GADA to make loans to the participants listed above and constitute special, limited obligations of GADA payable solely from the funds which are held in trust by the trustee (the Trust Estate). The Trust Estate includes debt service payments required to be made by the participants in the Series 1998, 2000A and 2001A bond issues. The bonds do not constitute a legal debt of the GADA or the State, and accordingly have not been reported in the accompanying financial statements.

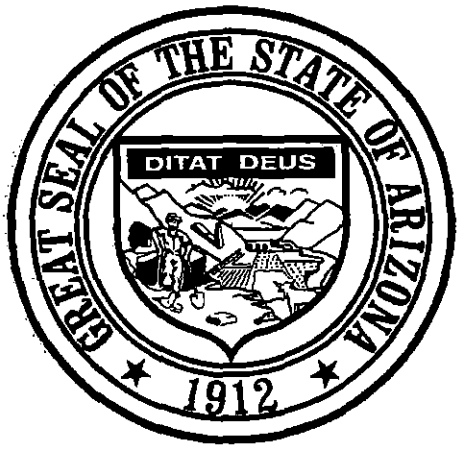
At June 30, 2001, Infrastructure Revenue Bonds outstanding aggregated $33.20 million.

NOTE 18. IMPLEMENTATION OF GASB STATEMENT NO. 34

Beginning with fiscal year 2002, the State will prepare its external financial reports following the requirements of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Implementing this statement will significantly change the accounting principles and reporting format used by the State in future financial reports.

NOTE 19. SUBSEQUENT EVENT

On October 15, 2001, the Arizona Department of Transportation issued $66.01 million in Transportation Excise Tax Revenue Bonds (Series 2001) to (1) finance the costs of design, right-of-way purchase, or construction of certain controlled-access highways within Maricopa County, Arizona and (2) pay the costs of issuing the Series 2001 Bonds. The Series 2001 Bonds are due July 1, 2003 through July 1, 2005. Net proceeds totaled $68.421 million (after receipt of $2.806 million of reoffering premium and payment of $394 thousand in underwriting fees).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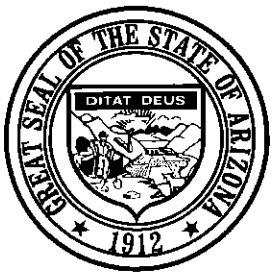
Combining Financial Statements and Schedules



Prickly Pear

The Desert Botanical Garden's prickly-pear (Opuntia sp) collection is one of the largest in the world.

SPECIAL REVENUE FUNDS

Special Revenue Funds account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes.

The State Highway Fund accounts for general operations of the Arizona Department of Transportation. The fund receives money from the Arizona Department of Transportation's Highway User Revenue Fund for vehicle registration, title, license and related fees and fuel and motor carrier taxes. Reimbursements for certain construction expenditures are received from the Federal government, Arizona cities and counties, and other state agencies. Disbursements are made primarily for the engineering, construction, improvement and maintenance of state highways, parts of highways forming state routes and highways under cooperative agreements with the United States.

The Highway User Revenue Fund accounts for collections of motor vehicle and liquid use fuel taxes and receives certain Motor Vehicle Division revenues from the Arizona Department of Transportation's Motor Vehicle Division Clearing Fund. These monies are distributed to the Arizona Department of Transportation State Highway Fund, the Department of Public Safety, Arizona State Parks, the Economic Strength Project Fund, and various cities and counties.

The Maricopa Regional Area Road Fund accounts for receipt of Maricopa County transportation excise tax monies collected by the Arizona Department of Revenue. These monies are used for the construction of state highways within Maricopa County.

The Tobacco Tax and Healthcare Fund accounts for the receipt of monies levied on tobacco products. The monies are used for health education programs; research, prevention and treatment of tobacco related diseases, and medically needy healthcare programs.

The Children's Health Insurance Program Fund accounts for receipt of monies from Federal grants, Tobacco Tax appropriations, donations, and other sources. Monies are used for administration and operation of the Children's Health Insurance Program, which provides health insurance coverage to eligible children according to Federal and State requirements.

The Local Agency Deposits Fund accounts for receipt of monies from the U.S. Government and local agencies for the payment of local agency sponsored county secondary road construction projects.

The Highway Expansion and Extension Loan Program Fund is a financing mechanism to administer funds designated to provide loan and credit enhancement assistance to sponsors of local transportation projects.

The School Facilities Revenue Bond Proceeds Fund accounts for the receipt of the Education Transaction Privilege Revenue Bond proceeds. Funds are restricted to be expended to (1) pay the costs of correcting existing deficiencies in public school facilities for grades K-12, (2) pay bond related expenses, and (3) fully or partially fund any reserves or sinking fund accounts established by the bond resolution.

Other Special Revenue Funds consists of 274 other funds, for various purposes.

STATE OF ARIZONA
COMBINING BALANCE SHEET
SPECIAL REVENUE FUNDS
JUNE 30, 2001
(Expressed in Thousands)

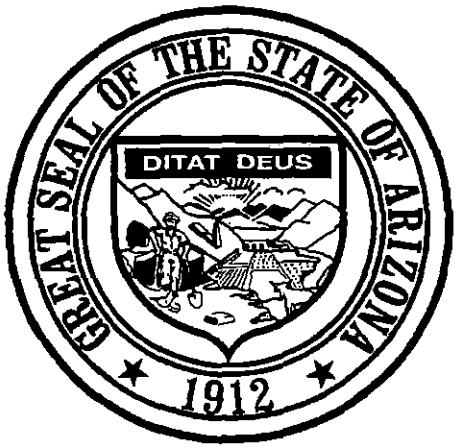
	STATE HIGHWAY FUND	HIGHWAY USER REVENUE	MARICOPA RARF	TOBACCO TAX & HEALTHCARE	CHILDREN'S HEALTH INSURANCE PROGRAM
ASSETS					
Cash and investments	$ 165,315	$ 76,381	$ 70,852	$ 87,462	$ 9,334
Receivables, net of allowances:					
Taxes	-	61,797	-	8,874	-
Interest	2,047	437	144	-	-
Other	15,586	-	5,932	-	12
Due from U.S. Government	52,420	-	171	-	-
Due from local governments	12	90	-	129	34
Due from other Funds	96,398	12,946	22,310	1,560	-
Inventories, at cost	4,091	-	-	-	-
Total Assets	$ 335,869	$ 151,651	$ 99,409	$ 98,025	$ 9,380
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 67,669	$ -	$ 7,094	$ 2,400	$ 724
Accrued liabilities	5,487	-	3	-	17
Due to U.S. Government	-	-	-	-	498
Due to local governments	633	75,500	-	-	-
Due to others	-	-	-	-	-
Due to other Funds	33,347	76,151	-	-	-
Deferred revenue	-	-	-	-	-
Notes payable	-	-	7,529	-	-
Other	-	-	-	-	599
Total Liabilities	107,136	151,651	14,626	2,400	1,838
Fund Balances:					
Reserved	132,120	-	84,360	500	-
Unreserved	96,613	-	423	95,125	7,542
Total Fund Balances	228,733	-	84,783	95,625	7,542
Total Liabilities and Fund Balances	$ 335,869	$ 151,651	$ 99,409	$ 98,025	$ 9,380

LOCAL AGENCY DEPOSITS	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	SCHOOL FACILITIES REVENUE BOND PROCEEDS	OTHER	TOTAL
$ 5,029	$ 164,396	$ 499,055	$ 613,813	$ 1,691,637
-	-	-	12,026	82,697
-	751	-	2,310	5,689
1,043	4,134	-	24,422	51,129
4,139	-	-	-	56,730
-	-	-	1,371	1,636
41	33,214	-	32,453	198,922
-	-	-	2,358	6,449
$ 10,252	$ 202,495	$ 499,055	$ 688,753	$ 2,094,889
$ 4,182	$ -	$ -	$ 61,666	$ 143,735
-	8	-	10,058	15,573
-	-	-	-	498
-	-	-	24,573	100,706
-	-	-	306	306
-	120,715	-	17,182	247,395
-	-	-	3,335	3,335
-	-	-	-	7,529
-	-	-	2,182	2,781
4,182	120,723	-	119,302	521,858
6,070	80,791	499,055	30,373	833,269
-	981	-	539,078	739,762
6,070	81,772	499,055	569,451	1,573,031
$ 10,252	$ 202,495	$ 499,055	$ 688,753	$ 2,094,889

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	STATE HIGHWAY FUND	HIGHWAY USER REVENUE	MARICOPA RARF	TOBACCO TAX & HEALTHCARE	CHILDREN'S HEALTHCARE INSURANCE PROGRAM
REVENUES					
Taxes:					
Sales	$ -	$ -	$ 264,722	$ -	$ -
Motor vehicle and fuel	510,441	504,928	-	-	-
Property	-	-	-	-	-
Other	-	-	-	108,326	-
Intergovernmental	368,648	-	35,978	-	43,317
Licenses, fees and permits	-	-	-	-	-
Earnings on investments	16,427	-	6,293	2,437	-
Sales and charges for services	-	-	-	-	-
Fines, forfeitures and penalties	-	-	-	-	-
Other	16,690	-	2,123	2,940	2,006
Total Revenues	912,206	504,928	309,116	113,703	45,323
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Health and welfare	-	-	-	110,501	60,015
Inspection and regulation	-	-	-	-	-
Education	-	-	-	-	-
Protection and safety	-	-	-	-	-
Transportation	869,137	493,991	136,977	-	-
Natural resources	-	-	-	-	-
Capital outlay	6,328	-	-	68	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	875,465	493,991	136,977	110,569	60,015
Revenues Over (Under) Expenditures	36,741	10,937	172,139	3,134	(14,692)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	84,939	-	739	5,913	19,838
Operating transfers out	(134,452)	(10,937)	(237,353)	(59,586)	(6,600)
Capital lease and installment purchase contracts	910	-	-	-	-
Proceeds from sale of bonds	-	-	-	-	-
Total Other Financing Sources (Uses)	(48,603)	(10,937)	(236,614)	(53,673)	13,238
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(11,862)	-	(64,475)	(50,539)	(1,454)
Beginning Fund Balances, as restated	240,595	-	149,258	146,164	8,996
Residual Equity Transfers	-	-	-	-	-
Ending Fund Balances	$ 228,733	$ -	$ 84,783	$ 95,625	$ 7,542

LOCAL AGENCY DEPOSITS	HIGHWAY EXPANSION & EXTENSION LOAN PROGRAM	SCHOOL FACILITIES REVENUE BOND PROCEEDS	OTHER	TOTAL
$ -	$ -	$ -	$ 8,055	$ 272,777
-	-	-	297,844	1,313,213
-	-	-	2,014	2,014
-	-	-	46,951	155,277
38,724	-	-	36,495	523,162
-	-	-	150,727	150,727
-	9,152	817	25,006	60,132
-	-	-	43,681	43,681
-	-	-	68,347	68,347
147	-	-	46,510	70,416
38,871	9,152	817	725,630	2,659,746
-	-	-	89,900	89,900
-	-	-	181,393	351,909
-	-	-	70,613	70,613
-	-	2,767	3,311	6,078
-	-	-	54,404	54,404
38,362	2,284	-	288,408	1,829,159
-	-	-	78,730	78,730
-	-	-	11,175	17,571
-	-	-	198	198
-	-	-	8	8
38,362	2,284	2,767	778,140	2,498,570
509	6,868	(1,950)	(52,510)	161,176
-	21,389	-	96,221	229,039
(93)	(13)	-	(70,928)	(519,962)
-	-	-	147	1,057
-	-	501,005	-	501,005
(93)	21,376	501,005	25,440	211,139
416	28,244	499,055	(27,070)	372,315
5,654	53,528	-	598,832	1,203,027
-	-	-	(2,311)	(2,311)
$ 6,070	$ 81,772	$ 499,055	$ 569,451	$ 1,573,031


GREAT SEAL OF THE STATE OF ARIZONA
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DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

The Department of Transportation Fund administers the payment of principal and interest on the 1991 Series A and 1992 Series B State of Arizona Subordinated Highway Revenue Bond issues, the 1993 Series State of Arizona Highway Revenue Refunding Bond issue, the 1992 Series A, 1993 Series A and 1993 Series B State of Arizona Subordinated Highway Revenue Refunding Bond issues, the Series 1999 State of Arizona Highway Revenue Bond issue, and the State of Arizona Highway Revenue Bonds Series 2001 Bond issue.

The Maricopa Regional Area Road Fund administers the payment of principal and interest on the 1988 Series A, 1992 Series A Refunding, 1992 Series B and 1998 Series A Transportation Board of the State of Arizona Transportation Excise Tax Revenue Bond issues, the 1989 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issue, the 1993 Series and 1995 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issues, the 1995 Series B Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Refunding Bond issue, and the Subordinated 1999 Series Bonds and 2000 Series Bonds.

The Certificates of Participation Fund administers the payment of principal and interest on the State of Arizona Certificates of Participation.

The School Facilities Debt Instrument Fund administers the payment of principal and interest on the State of Arizona School Facilities Board Education Transaction Privilege Series 2001 Revenue Bonds.

The Grant Anticipation Notes Fund administers the payment of principal and interest on Series 2000 A and Series 2001 A Arizona Transportation Board Grant Anticipation Notes.

STATE OF ARIZONA
COMBINING BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES
ASSETS					
Cash and investments	$ 1,165	$ 17,110	$ 2,833	$ 277	$ -
Receivables, net of allowances:					
Interest	758	1,055	-	-	-
Other	-	-	-	-	1
Total Assets	$ 1,923	$ 18,165	$ 2,833	$ 277	$ 1
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accrued liabilities	$ -	$ -	$ -	$ 277	$ -
Total Liabilities	-	-	-	277	-
Total Fund Balances, all reserved	1,923	18,165	2,833	-	1
Total Liabilities and Fund Balances	$ 1,923	$ 18,165	$ 2,833	$ 277	$ 1

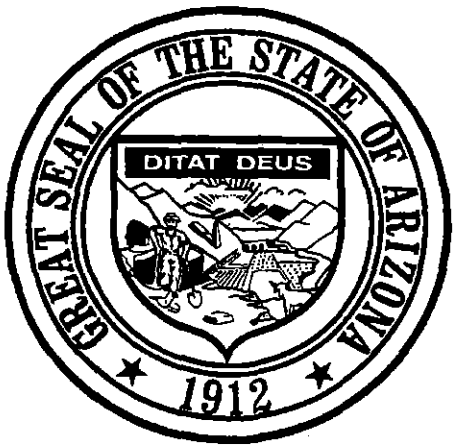
	TOTAL
$	21,385
	1,813
	1
$	23,199

$	277
	277
	22,922
$	23,199

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION	MARICOPA RARF	CERTIFICATES OF PARTICIPATION	SCHOOL FACILITIES DEBT INSTRUMENT	GRANT ANTICIPATION NOTES
REVENUES					
Earnings on investments	$ 2,660	$ 5,818	$ 1,175	$ -	$ -
Other	-	-	-	-	-
Total Revenues	2,660	5,818	1,175	-	-
EXPENDITURES					
Current:					
Transportation	37	78	-	-	1
Principal	52,055	156,865	13,985	-	-
Interest and other fiscal charges	36,581	40,035	11,493	-	1,885
Total Expenditures	88,673	196,978	25,478	-	1,886
Revenues (Under) Expenditures	(86,013)	(191,160)	(24,303)	-	(1,886)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	86,529	192,278	24,258	-	1,886
Operating transfers out	(159)	(732)	(796)	-	-
Proceeds of refunding bonds	-	-	-	-	1
Payment to refunded bond escrow agent	-	-	-	-	-
Proceeds from sale of bonds	-	-	-	-	-
Total Other Financing Sources	86,370	191,546	23,462	-	1,887
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	357	386	(841)	-	1
Beginning Fund Balances	1,566	17,779	3,674	-	-
Ending Fund Balances, all reserved	$ 1,923	$ 18,165	$ 2,833	$ -	$ 1

TOTAL	
$	9,653
	-
	9,653
	116
	222,905
	89,994
	313,015
	(303,362)
	304,951
	(1,687)
	1
	-
	-
	303,265
	(97)
	23,019
$	22,922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CAPITAL PROJECTS FUNDS

Capital Projects Funds account for financial resources used to acquire or construct major capital facilities (other than those financed by Proprietary, Non-Expendable Trust, Pension Trust, University Funds or Component Units).

The Department of Transportation Financed Fund administers the bond proceeds from the Series 1999 State of Arizona Highway Revenue Bonds issue. These monies are expended for the construction of Federal, State and local highways.

The Maricopa Regional Area Road Financed Fund administers the bond proceeds from the 1998 Series A and the 1999 Series A Transportation Board of the State of Arizona Subordinated Transportation Excise Tax Revenue Bond issues. These monies are spent on the construction of State highways within Maricopa County.

The Grant Anticipation Notes Financed Fund administers proceeds from the Series 2000 A and Series 2001 A Arizona Transportation Board Grant Anticipation Notes. These monies are expended for the acquisition of right-of-way purchase, or construction of certain controlled access highways within Maricopa County.

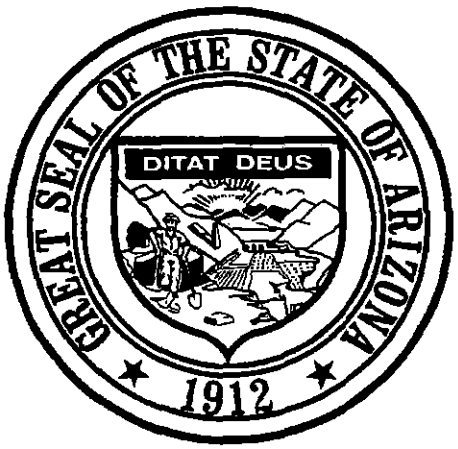
The Other Capital Projects Fund consists of the Corrections Fund, State Parks Enhancement Fund, Clifton Flood Control Project Fund, Veterans Nursing Home - Veterans Services Administration, Game and Fish Capital Improvement Fund, State Lake Improvement Fund, Emergency Dam Repair Fund, and the Arizona State Hospital Capital Construction Fund.

STATE OF ARIZONA
COMBINING BALANCE SHEET
CAPITAL PROJECTS FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	MARICOPA RARF FINANCED	GRANT ANTICIPATION NOTES FINANCED	OTHER	TOTAL
ASSETS					
Cash and investments	$ 114,029	$ 10,878	$ 145,646	$ 120,352	$ 390,905
Receivables, net of allowances:					
Taxes	-	-	-	2,076	2,076
Interest	819	86	802	197	1,904
Other	-	-	-	3	3
Due from other Funds	-	-	-	583	583
Total Assets	$ 114,848	$ 10,964	$ 146,448	$ 123,211	$ 395,471
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 4,232	$ 3,482	$ 13,656	$ 1,359	$ 22,729
Accrued liabilities	-	-	-	113	113
Due to other Funds	-	-	-	13	13
Other	-	-	-	3	3
Total Liabilities	4,232	3,482	13,656	1,488	22,858
Fund Balances:					
Reserved	110,616	7,482	132,792	76,834	327,724
Unreserved	-	-	-	44,889	44,889
Total Fund Balances	110,616	7,482	132,792	121,723	372,613
Total Liabilities and Fund Balances	$ 114,848	$ 10,964	$ 146,448	$ 123,211	$ 395,471

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	DEPARTMENT OF TRANSPORTATION FINANCED	MARICOPA RARF FINANCED	GRANT ANTICIPATION NOTES FINANCED	OTHER	TOTAL
REVENUES					
Taxes:					
Motor vehicle and fuel	$ -	$ -	$ -	$ 8,643	$ 8,643
Property	-	-	-	181	181
Other	-	-	-	25,387	25,387
Licenses, fees and permits	-	-	-	2,550	2,550
Earnings on investments	3,552	2,847	2,434	3,659	12,492
Sales and charges for services	-	-	-	4,671	4,671
Total Revenues	3,552	2,847	2,434	45,091	53,924
EXPENDITURES					
Capital outlay	83,635	78,395	57,290	21,442	240,762
Revenues Over (Under) Expenditures	(80,083)	(75,548)	(54,856)	23,649	(186,838)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	-	-	20,400	20,400
Operating transfers out	(8,228)	(32,621)	(148)	(2,270)	(43,267)
Proceeds from sale of bonds	150,934	115,651	-	-	266,585
Proceeds from sale of grant anticipation notes	-	-	187,796	-	187,796
Total Other Financing Sources	142,706	83,030	187,648	18,130	431,514
Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	62,623	7,482	132,792	41,779	244,676
Beginning Fund Balances	47,993	-	-	79,944	127,937
Ending Fund Balances	$ 110,616	$ 7,482	$ 132,792	$ 121,723	$ 372,613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ENTERPRISE FUNDS

Enterprise Funds account for operations (a) financed and operated in a manner similar to private business enterprises, where the State intends that the cost of providing goods or services to the general public be financed or recovered primarily through service charges, or (b) where the State decides that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Industrial Commission administers and enforces the employment laws of the State, including the regulation of workers' compensation.

The Lottery Fund accounts for lottery ticket revenues, administrative and operating expenses and distribution of revenues to other Funds.

The Arizona Exposition and State Fair provides rental space to a variety of entertainment and promotional lessees, and sponsors the annual State Fair.

The Arizona Highways Magazine Fund publishes and markets the Arizona Highways Magazine and various other products that promote the State of Arizona.

The Arizona Correctional Industries Fund employs prison inmates in its manufacturing, service and agricultural operations for the sale of goods and services primarily to other State agencies (including the Arizona Department of Corrections) and political subdivisions.

The Arizona Industries for the Blind Fund accounts for the manufacturing, sale, distribution and marketing of products manufactured by employees at training centers, workshops, business enterprises and home industries programs for the training and employment of adaptable visually impaired persons.

The Healthcare Group of Arizona administers prepaid medical coverage primarily to small-uninsured businesses with 2 to 50 employees and employees of political subdivisions. The HCGA processes premium billing, collections and fund disbursement, and data analysis and is responsible for the regulatory oversight of the health plans.

ComCare, Inc. is a nonprofit corporation responsible for the administration, coordination and delivery of comprehensive behavioral health services to residents of Maricopa County through a network of more than 130 provider agencies/individuals.

The Other Enterprise Fund consists of the Arizona Historical Society Revolving Fund, Game and Fish Publications Revolving Fund, Department of Library, Archives and Public Records Gift Shop Revolving Fund, Southern Arizona Mental Health Center Enterprise Fund, Land Department Resource Analysis Revolving Fund, State Parks Publications and Souvenirs Revolving Fund, Real Estate Printing Revolving Fund, Education Commodity Fund, Indian Affairs Commission Publications Revolving Fund, School for Deaf and Blind Facilities Use Fund, the State Home for Veterans, the Cooperative State Purchasing Agreement Fund, and the Arizona Beef Council Fund.

STATE OF ARIZONA
COMBINING BALANCE SHEET
ENTERPRISE FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	INDUSTRIAL COMMISSION	LOTTERY	ARIZONA EXPOSITION & STATE FAIR	ARIZONA HIGHWAYS MAGAZINE	ARIZONA CORRECTIONAL INDUSTRIES
ASSETS					
Current Assets:					
Cash and investments	$ 523	$ 27,587	$ 6,127	$ 2,396	$ 7,007
Collateral investment pool	34,778	-	-	-	-
Receivables, net of allowances:					
Interest	2,619	-	124	6	45
Other	4	2,831	228	521	2,676
Due from U.S. Government	-	-	-	-	-
Due from other Funds	-	-	-	-	-
Inventories, at cost	-	874	-	2,925	2,205
Other	-	-	4	722	50
Total Current Assets	37,924	31,292	6,483	6,570	11,983
Long-term Assets:					
Investments	222,253	-	-	-	-
Other	-	6,662	-	-	-
Fixed assets:					
Property and equipment	20,541	8,701	23,008	3,417	8,856
Less: accumulated depreciation	(5,792)	(4,952)	(18,085)	(1,661)	(5,475)
Total Long-term Assets	237,002	10,411	4,923	1,756	3,381
Total Assets	$ 274,926	$ 41,703	$ 11,406	$ 8,326	$ 15,364
LIABILITIES AND FUND EQUITY					
Current Liabilities:					
Accounts payable	$ 905	$ 2,446	$ 2	$ 128	$ 1,075
Accrued liabilities	-	-	73	184	69
Obligations under securities loan agreements	34,778	-	-	-	-
Due to local governments	-	2,708	-	-	-
Due to others	-	-	-	-	-
Due to other Funds	-	7,525	-	-	-
Deferred revenue	-	-	-	4,421	-
Current portion of insurance losses	11,526	-	-	-	-
Current portion of long-term debt	1,300	-	-	-	-
Other	-	19,976	58	-	426
Total Current Liabilities	48,509	32,655	133	4,733	1,570
Long-term Liabilities:					
Accrued compensated absences	-	373	144	-	210
Accrued insurance losses	138,944	-	-	-	-
Long-term debt:					
Certificates of participation	7,400	-	-	-	-
Total Long-term Liabilities	146,344	373	144	-	210
Total Liabilities	194,853	33,028	277	4,733	1,780
Fund Equity:					
Contributed capital	-	-	-	1,539	3,189
Retained earnings					
Reserved	47	79	6,396	-	-
Unreserved	80,026	8,596	4,733	2,054	10,395
Total Fund Equity	80,073	8,675	11,129	3,593	13,584
Total Liabilities and Fund Equity	$ 274,926	$ 41,703	$ 11,406	$ 8,326	$ 15,364

ARIZONA INDUSTRIES FOR THE BLIND	HEALTHCARE GROUP OF ARIZONA	COMCARE	OTHER	TOTAL
$ 49	$ 7,923	$ 4,403	$ 2,347	$ 58,362
-	-	-	-	34,778
-	22	-	2	2,818
739	2	18	398	7,417
119	-	-	-	119
-	-	-	1	1
3,278	-	-	318	9,600
-	-	-	10	786
4,185	7,947	4,421	3,076	113,881
-	-	-	-	222,253
-	-	-	-	6,662
6,607	76	-	14,506	85,712
(4,111)	(56)	-	(2,530)	(42,662)
2,496	20	-	11,976	271,965
$ 6,681	$ 7,967	$ 4,421	$ 15,052	$ 385,846
$ 1,732	$ -	$ 3,550	$ 65	$ 9,903
-	1,260	-	5	1,591
-	-	-	-	34,778
-	-	-	-	2,708
-	-	-	163	163
-	-	-	-	7,525
-	3,392	-	-	7,813
-	-	-	-	11,526
-	-	-	-	1,300
-	-	-	-	20,460
1,732	4,652	3,550	233	97,767
170	-	-	-	897
-	-	-	-	138,944
-	-	-	-	7,400
170	-	-	-	147,241
1,902	4,652	3,550	233	245,008
927	-	-	-	5,655
-	-	-	24	6,546
3,852	3,315	871	14,795	128,637
4,779	3,315	871	14,819	140,838
$ 6,681	$ 7,967	$ 4,421	$ 15,052	$ 385,846

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

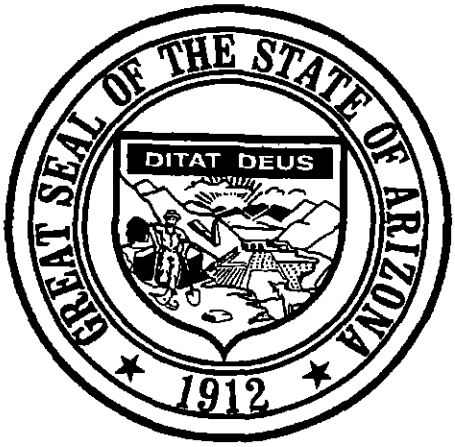
	INDUSTRIAL COMMISSION	LOTTERY	ARIZONA EXPOSITION & STATE FAIR	ARIZONA HIGHWAYS MAGAZINE	ARIZONA CORRECTIONAL INDUSTRIES
OPERATING REVENUES					
Sales and charges for services:					
Lottery	$ -	$ 272,671	$ -	$ -	$ -
Other	-	-	8,955	10,208	17,872
Motor vehicle and fuel taxes	-	-	-	-	-
Licenses, fees and permits	-	19	-	-	-
Earnings on investments	13,039	-	-	-	-
Other	6,167	1,292	1,498	372	-
Total Operating Revenues	19,206	273,982	10,453	10,580	17,872
OPERATING EXPENSES					
Cost of sales and benefits	5,241	178,745	1,790	5,242	14,976
Personal services	-	4,595	4,388	2,371	816
Contractual services	1,098	532	3,027	574	35
Aid to local governments	-	34,353	-	-	-
Depreciation and amortization	543	308	964	314	736
Insurance	-	32	268	-	-
Other	4,409	9,359	932	2,367	236
Total Operating Expenses	11,291	227,924	11,369	10,868	16,799
Operating Income (Loss)	7,915	46,058	(916)	(288)	1,073
NON-OPERATING REVENUES (EXPENSES)					
(Loss) on sale of fixed assets	-	-	-	(1)	-
Interest income	65	-	305	152	412
Interest expense	(427)	-	-	-	-
Other non-operating revenue	-	-	401	-	-
Other non-operating expense	-	-	-	-	-
Net Non-operating Income (Loss)	(362)	-	706	151	412
Income (Loss) Before Contributions and Transfers	7,553	46,058	(210)	(137)	1,485
Capital contributions	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(42,996)	(148)	(210)	(312)
Net Contributions and Transfers	-	(42,996)	(148)	(210)	(312)
Net Income (Loss)	7,553	3,062	(358)	(347)	1,173
Beginning Retained Earnings	72,520	7,896	13,487	2,901	10,222
Residual Equity Transfers	-	(2,283)	(2,000)	(500)	(1,000)
Ending Retained Earnings	$ 80,073	$ 8,675	$ 11,129	$ 2,054	$ 10,395

ARIZONA INDUSTRIES FOR THE BLIND	HEALTHCARE GROUP OF ARIZONA	COMCARE	OTHER	TOTAL
$ -	$ -	$ -	$ -	$ 272,671
16,566	21,024	-	10,324	84,949
-	-	-	141	141
-	-	-	937	956
-	-	-	60	13,099
5	-	912	517	10,763
16,571	21,024	912	11,979	382,579
12,875	24,809	-	283	243,961
1,768	485	93	7,231	21,747
195	124	134	1,010	6,729
-	-	-	7	34,360
451	9	-	484	3,809
445	-	-	127	872
2,563	162	100	1,529	21,657
18,297	25,589	327	10,671	333,135
(1,726)	(4,565)	585	1,308	49,444
-	-	(2)	-	(3)
-	491	520	4	1,949
(4)	-	-	(2)	(433)
1,158	-	-	-	1,559
-	-	(748)	-	(748)
1,154	491	(230)	2	2,324
(572)	(4,074)	355	1,310	51,768
-	-	-	56	56
-	6,465	-	300	6,765
(409)	(2,045)	-	(659)	(46,779)
(409)	4,420	-	(303)	(39,958)
(981)	346	355	1,007	11,810
4,833	2,969	7,516	13,812	136,156
-	-	(7,000)	-	(12,783)
$ 3,852	$ 3,315	$ 871	$ 14,819	$ 135,183

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	INDUSTRIAL COMMISSION	LOTTERY	ARIZONA EXPOSITION & STATE FAIR	ARIZONA HIGHWAYS MAGAZINE
CASH FLOWS FROM OPERATING ACTIVITIES				
Operating income (loss)	$ 7,915	$ 46,058	$ (916)	$ (288)
Adjustments to reconcile to net cash provided by operating activities:				
Depreciation and amortization	543	308	964	314
Net (increase) in fair value of investments	(2,178)	-	-	-
Total Adjustments	(1,635)	308	964	314
Changes in assets and liabilities:				
(Increase) decrease in receivables, net of allowances	(304)	(473)	(112)	(109)
Decrease in due from U.S. Government	-	-	-	-
Decrease in due from other Funds	-	-	-	-
(Increase) decrease in inventories, at cost	-	370	-	(139)
(Increase) decrease in other current assets	-	(513)	8	(53)
Increase (decrease) in accounts payable	160	(539)	(123)	(36)
Increase (decrease) in accrued liabilities	-	-	24	3
(Decrease) in due to local governments	-	(127)	-	-
Increase in due to others	-	-	-	-
(Decrease) in due to other Funds	-	(1,742)	-	-
Increase (decrease) in deferred revenue	-	-	-	(63)
Increase (decrease) in other current liabilities	(590)	1,621	(52)	-
Increase (decrease) in accrued compensated absences	-	35	(10)	-
(Decrease) in accrued insurance losses	(6,599)	-	-	-
(Decrease) in other long-term liabilities	-	-	-	-
Net Changes in Assets and Liabilities	(7,333)	(1,368)	(265)	(397)
Net Cash Provided (Used) by Operating Activities	(1,053)	44,998	(217)	(371)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Interest expense	-	-	-	-
Other non-operating revenue	-	-	-	-
Other non-operating expense	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	-	(42,996)	(148)	(210)
Residual equity transfers	-	(2,283)	(2,000)	(500)
Net Cash Provided (Used) by Non-capital Financing Activities	-	(45,279)	(2,148)	(710)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of fixed assets	(870)	(51)	(260)	(6)
Interest payments under certificates of participation or bonds	(427)	-	-	-
Principal payments under leases and installment purchases	(1,100)	-	-	-
Proceeds in funds received by trustee	65	-	-	-
Capital contributions	-	-	-	-
Pari-mutuel racing receipts	-	-	401	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,332)	(51)	141	(6)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sales and maturities of investments	129,203	-	-	-
Purchase of investments	(125,677)	-	-	-
Interest and dividends on investments	-	-	330	174
Change in cash collateral received from securities lending transactions	(14,341)	-	-	-
Net Cash Provided (Used) by Investing Activities	(10,815)	-	330	174
Net Increase (Decrease) in Cash and Cash Equivalents	(14,200)	(332)	(1,894)	(913)
Cash and Cash Equivalents - Beginning	49,501	27,919	8,021	3,309
Cash and Cash Equivalents - Ending	$ 35,301	$ 27,587	$ 6,127	$ 2,396

ARIZONA CORRECTIONAL INDUSTRIES	ARIZONA INDUSTRIES FOR THE BLIND	HEALTHCARE GROUP OF ARIZONA	COMCARE	OTHER	TOTAL
$ 1,073	$ (1,726)	$ (4,565)	$ 585	$ 1,308	$ 49,444
736	451	9	-	484	3,809
-	-	-	-	-	(2,178)
736	451	9	-	484	1,631
(98)	1,361	(1)	670	148	1,082
-	5	-	-	-	5
-	-	2,393	-	465	2,858
343	(183)	-	-	(18)	373
(32)	-	-	-	5	(585)
(458)	(663)	-	(932)	(109)	(2,700)
8	-	(1,156)	-	(347)	(1,468)
-	-	-	-	-	(127)
-	-	-	-	112	112
(1,000)	-	-	-	(1)	(2,743)
-	-	687	-	-	624
364	(74)	-	-	-	1,269
28	19	-	-	-	72
-	-	-	-	-	(6,599)
-	(9)	-	-	-	(9)
(845)	456	1,923	(262)	255	(7,836)
964	(819)	(2,633)	323	2,047	43,239
-	(4)	-	-	(2)	(6)
-	1,158	-	-	-	1,158
-	-	-	(748)	-	(748)
-	-	6,465	-	300	6,765
(312)	(409)	(2,045)	-	(659)	(46,779)
(1,000)	-	-	(7,000)	-	(12,783)
(1,312)	745	4,420	(7,748)	(361)	(52,393)
(694)	(260)	-	-	(183)	(2,324)
-	-	-	-	-	(427)
-	-	-	-	-	(1,100)
-	-	-	-	-	65
-	-	-	-	56	56
-	-	-	-	-	401
(694)	(260)	-	-	(127)	(3,329)
-	-	-	748	-	129,951
-	-	-	-	-	(125,677)
432	-	491	520	6	1,953
-	-	-	-	-	(14,341)
432	-	491	1,268	6	(8,114)
(610)	(334)	2,278	(6,157)	1,565	(20,597)
7,617	383	5,645	10,560	782	113,737
$ 7,007	$ 49	$ 7,923	$ 4,403	$ 2,347	$ 93,140


GREAT SEAL OF THE STATE OF ARIZONA
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INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided by one State department or agency to other State departments or agencies on a cost-reimbursement basis.

The Risk Management Fund provides insurance coverage to all State agencies using an optimal combination of self-insurance and private excess insurance. It includes the Workers' Compensation section that receives monies from State agencies and uses these monies to pay for insurance and risk management services including loss control services and self-insured liability losses.

The Transportation Equipment Fund administers the purchase, storage and distribution of supplies, equipment and furniture for other Department of Transportation Funds.

The Technologies and Telecommunications Fund receives monies from State agencies for services related to the operation of the data processing and telecommunications programs.

Motor Pool receives monies from State agencies for use of State vehicles and uses these monies for operation of the State Motor Pool.

The Other Internal Service Fund consists of the Department of Administration's Special Services Revolving Fund, Central Service Bureau Fund, State Surplus Property Fund, Federal Surplus Property Fund, Personnel Division Fund, AFIS II Collections Fund; Government Information Technology Agency's Personnel Division Fund, Information Technology Fund and Technology and Telecommunications Fund; Department of Education's Internal Services Fund and Printing Fund; Department of Health Services' Internal Services Fund; Land Department Interagency Agreement Fund, and the Library, Archives and Public Records Records Services Fund.

STATE OF ARIZONA
COMBINING BALANCE SHEET
INTERNAL SERVICE FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	TECHNOLOGIES & TELE-COMMUNICATIONS	MOTOR POOL	OTHER
ASSETS					
Current Assets:					
Cash and investments	$ 35,807	$ 5,440	$ 4,644	$ 4,877	$ 9,894
Receivables, net of allowances:					
Interest	-	55	-	-	4
Other	54	49	3,308	1,776	243
Due from local governments	-	534	-	-	-
Due from other Funds	-	266	2,229	975	171
Inventories, at cost	-	2,449	-	20	565
Other	5,878	-	16	-	-
Total Current Assets	41,739	8,793	10,197	7,648	10,877
Long-term Assets:					
Fixed assets:					
Property and equipment	264	112,919	36,462	41,131	4,759
Less: accumulated depreciation	(125)	(68,707)	(26,047)	(19,590)	(3,134)
Total Long-term Assets	139	44,212	10,415	21,541	1,625
Total Assets	$ 41,878	$ 53,005	$ 20,612	$ 29,189	$ 12,502
LIABILITIES AND FUND EQUITY					
Current Liabilities:					
Accounts payable	$ 3,515	$ 197	$ 5,097	$ 826	$ 214
Accrued liabilities	75	785	191	10	320
Due to local governments	-	7	-	-	-
Due to other Funds	297	-	11	1	317
Deferred revenue	-	-	-	-	4
Current portion of leases and installment purchases	-	2,152	-	-	8
Other	1	-	-	-	7
Total Current Liabilities	3,888	3,141	5,299	837	870
Long-term Liabilities:					
Accrued compensated absences	233	-	686	23	123
Accrued insurance losses	233,677	-	-	-	-
Leases and installment purchases	-	5,331	-	-	-
Total Long-term Liabilities	233,910	5,331	686	23	123
Total Liabilities	237,798	8,472	5,985	860	993
Fund Equity:					
Contributed capital	-	6,322	1,711	18,667	8
Retained earnings:					
Reserved	-	-	-	3	1,001
Unreserved	(195,920)	38,211	12,916	9,659	10,500
Total Fund Equity	(195,920)	44,533	14,627	28,329	11,509
Total Liabilities and Fund Equity	$ 41,878	$ 53,005	$ 20,612	$ 29,189	$ 12,502

	TOTAL
$	60,662
	59
	5,430
	534
	3,641
	3,034
	5,894
	79,254
	195,535
	(117,603)
	77,932
$	157,186
$	9,849
	1,381
	7
	626
	4
	2,160
	8
	14,035
	1,065
	233,677
	5,331
	240,073
	254,108
	26,708
	1,004
	(124,634)
	(96,922)
$	157,186

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

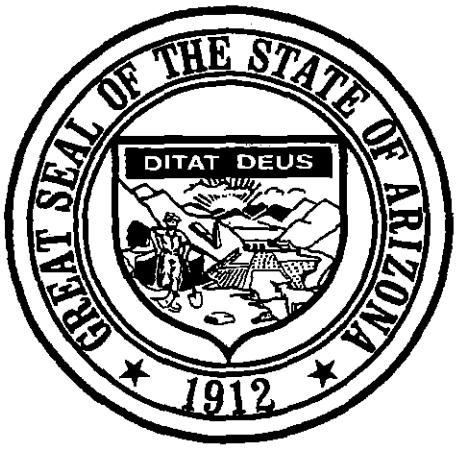
	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	TECHNOLOGIES & TELE-COMMUNICATIONS	MOTOR POOL	OTHER
OPERATING REVENUES					
Sales and charges for services	$ 67,374	$ 26,424	$ 29,340	$ 13,008	$ 20,273
Other	-	4,294	1	-	1,282
Total Operating Revenues	67,374	30,718	29,341	13,008	21,555
OPERATING EXPENSES					
Cost of sales and benefits	-	11,257	15,656	3,565	3,769
Personal services	3,511	8,310	9,204	443	9,283
Contractual services	24,048	516	838	2	3,501
Aid to local governments	-	-	-	-	1,597
Depreciation and amortization	40	7,162	3,149	5,746	412
Insurance	71,308	605	219	688	145
Other	1,025	1,019	1,620	743	2,136
Total Operating Expenses	99,932	28,869	30,686	11,187	20,843
Operating Income (Loss)	(32,558)	1,849	(1,345)	1,821	712
NON-OPERATING REVENUES (EXPENSES)					
Gain on sale of fixed assets	-	-	-	423	2
Interest income	-	305	-	-	-
Interest expense	-	-	-	-	(4)
Other non-operating revenue	356	-	-	-	24
Other non-operating expense	-	-	-	(111)	-
Total Non-operating Income	356	305	-	312	22
Income (Loss) Before Transfers	(32,202)	2,154	(1,345)	2,133	734
Operating transfers in	45	-	-	-	4,400
Operating transfers out	(823)	(866)	(822)	(282)	(2,703)
Net Transfers	(778)	(866)	(822)	(282)	1,697
Net Income (Loss)	(32,980)	1,288	(2,167)	1,851	2,431
Beginning Retained Earnings (Deficits)	(162,940)	37,423	15,083	7,811	9,070
Residual Equity Transfers	-	(500)	-	-	-
Ending Retained Earnings (Deficits)	$ (195,920)	$ 38,211	$ 12,916	$ 9,662	$ 11,501

	TOTAL
$	156,419
	5,577
	161,996
	34,247
	30,751
	28,905
	1,597
	16,509
	72,965
	6,543
	191,517
	(29,521)
	425
	305
	(4)
	380
	(111)
	995
	(28,526)
	4,445
	(5,496)
	(1,051)
	(29,577)
	(93,553)
	(500)
$	(123,630)

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	RISK MANAGEMENT	TRANSPORTATION EQUIPMENT	TECHNOLOGIES & TELE-COMMUNICATIONS
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ (32,558)	$ 1,849	$ (1,345)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	40	7,162	3,149
Total Adjustments	40	7,162	3,149
Changes in assets and liabilities:			
(Increase) decrease in receivables, net of allowances	-	208	(1,213)
(Increase) in due from local governments	-	(534)	-
(Increase) decrease in due from other Funds	-	(198)	(905)
(Increase) decrease in inventories, at cost	-	(115)	33
(Increase) in other current assets	(5,006)	-	(16)
Increase (decrease) in accounts payable	1,075	197	2,645
Increase in accrued liabilities	75	58	191
Increase in due to local governments	-	6	-
(Decrease) in due to others	-	-	-
Increase (decrease) in due to other Funds	253	-	(1)
Increase in deferred revenue	-	-	-
Increase in other current liabilities	-	-	-
Increase in accrued compensated absences	26	-	78
Increase in accrued insurance losses	20,601	-	-
Net Changes in Assets and Liabilities	17,024	(378)	812
Net Cash Provided (Used) by Operating Activities	(15,494)	8,633	2,616
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Interest expense	-	-	-
Other non-operating revenue	356	-	-
Other non-operating expense	-	-	-
Operating transfers in	45	-	-
Operating transfers out	(823)	(866)	(822)
Residual equity transfers	-	(500)	-
Contributions from other Funds	-	-	1,024
Net Cash Provided (Used) by Non-capital Financing Activities	(422)	(1,366)	202
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of fixed assets	(38)	(6,795)	(6,121)
Proceeds from sale of fixed assets	-	1,108	-
Principal payments under leases and installment purchases	-	(2,047)	-
Contributions from other Funds	-	529	-
Net Cash (Used) by Capital and Related Financing Activities	(38)	(7,205)	(6,121)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	-	285	-
Net Cash Provided by Investing Activities	-	285	-
Net Increase (Decrease) in Cash and Cash Equivalents	(15,954)	347	(3,303)
Cash and Cash Equivalents - Beginning	51,761	5,093	7,947
Cash and Cash Equivalents - Ending	$ 35,807	$ 5,440	$ 4,644

MOTOR POOL	OTHER	TOTAL
$ 1,821	$ 712	$ (29,521)
5,746	412	16,509
5,746	412	16,509
(689)	40	(1,654)
-	-	(534)
146	60	(897)
(10)	(44)	(136)
-	-	(5,022)
(246)	(573)	3,098
10	292	626
-	-	6
-	(205)	(205)
(4)	(360)	(112)
-	4	4
-	8	8
5	11	120
-	-	20,601
(788)	(767)	15,903
6,779	357	2,891
-	(4)	(4)
-	24	380
(111)	-	(111)
-	4,400	4,445
(282)	(2,703)	(5,496)
-	-	(500)
-	8	1,032
(393)	1,725	(254)
(5,193)	(757)	(18,904)
-	-	1,108
-	-	(2,047)
710	-	1,239
(4,483)	(757)	(18,604)
-	4	289
-	4	289
1,903	1,329	(15,678)
2,974	8,565	76,340
$ 4,877	$ 9,894	$ 60,662


GREAT SEAL OF THE STATE OF ARIZONA
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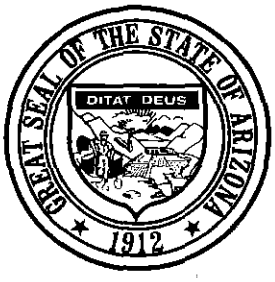
Trust and Agency Funds

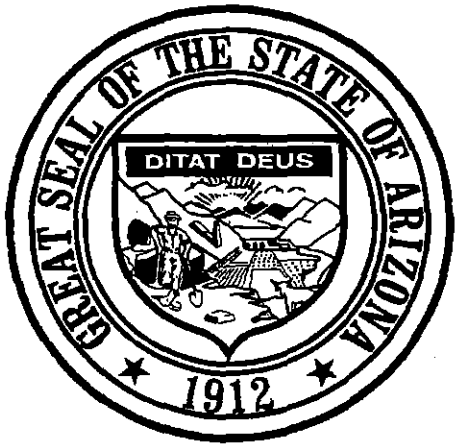


Cob Cactus

The cob cactus (Echinopsis) produces pastel-colored blooms and attracts pollinators.

STATE OF ARIZONA
COMBINING BALANCE SHEET
TRUST AND AGENCY FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	EXPENDABLE TRUSTS	NON-EXPENDABLE TRUSTS	PENSION TRUSTS	INVESTMENT TRUSTS	AGENCY	TOTAL
ASSETS						
Cash and investments	$ 1,149,078	$ 1,088,801	$ 30,292,702	$ 3,445,529	$ 3,169,364	$ 39,145,474
Receivables, net of allowances:						
Taxes	39,168	-	-	-	-	39,168
Interest	157	13,727	104,102	14,930	114	133,030
Other	12,058	121,235	165,659	-	12,232	311,184
Due from others	1	-	-	-	-	1
Due from other Funds	710	3,551	-	16,015	153	20,429
Inventories, at cost	70	-	-	-	-	70
Other	1,740	-	-	-	-	1,740
Fixed assets:						
Property and equipment	-	14,059	693	-	-	14,752
Less: accumulated depreciation	-	(1,474)	(225)	-	-	(1,699)
Total Assets	$ 1,202,982	$ 1,239,899	$ 30,562,931	$ 3,476,474	$ 3,181,863	$ 39,664,149
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 25,160	$ 372	$ 16,934	$ -	$ 1,614	$ 44,080
Accrued liabilities	6,829	2	-	-	26,686	33,517
Obligations under securities loan agreements	-	-	3,104,021	-	-	3,104,021
Due to local governments	-	-	-	11,858	7,264	19,122
Due to others	12	-	-	-	75,452	75,464
Due to other Funds	1,447	1,213	-	-	27,893	30,553
Deferred revenue	15,426	18,623	-	-	-	34,049
Other	8,295	2,467	280,020	-	3,042,954	3,333,736
Total Liabilities	57,169	22,677	3,400,975	11,858	3,181,863	6,674,542
Reserved Fund Balances	1,145,813	1,217,222	27,161,956	3,464,616	-	32,989,607
Total Liabilities and Fund Balances	$ 1,202,982	$ 1,239,899	$ 30,562,931	$ 3,476,474	$ 3,181,863	$ 39,664,149


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
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EXPENDABLE TRUST FUNDS

Expendable Trust Funds account for assets held by the State in a trustee capacity, where the principal may be expended in the course of the funds' designated operations.

The Unemployment Compensation Fund pays claims for unemployment to eligible recipients through employer contributions and reimbursements.

The Employee Benefits Fund accounts for resources and transactions pertaining to the State's medical plan and life insurance program.

The Energy Conservation Fund accounts for monies received from the Federal Government according to a United States District Court order requiring oil companies to pay restitution to states for oil overcharges. Expenditures for energy projects are made in accordance with guidelines established by the United States Department of Energy.

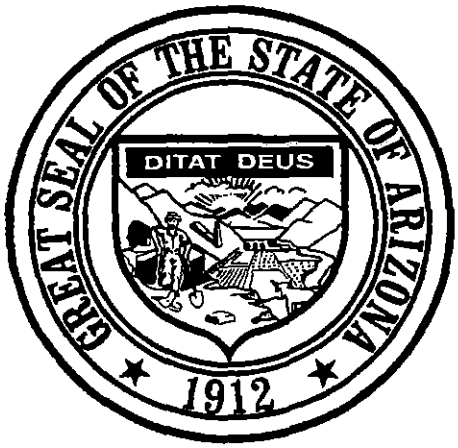
The Other Expendable Trust Fund consists of various funds where the State holds assets in a trustee capacity and the principal may be expended in the course of the funds' designated operations.

STATE OF ARIZONA
COMBINING BALANCE SHEET
EXPENDABLE TRUST FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	UNEMPLOYMENT COMPENSATION	EMPLOYEE BENEFITS	ENERGY CONSERVATION	OTHER	TOTAL
ASSETS					
Cash and investments	$ 1,038,181	$ 34,403	$ 14,185	$ 62,309	$ 1,149,078
Receivables, net of allowances:					
Taxes	39,168	-	-	-	39,168
Interest	-	-	42	115	157
Other	4,393	6,741	511	413	12,058
Due from others	-	-	1	-	1
Due from other Funds	-	416	-	294	710
Inventories, at cost	-	-	-	70	70
Other	-	-	-	1,740	1,740
Total Assets	$ 1,081,742	$ 41,560	$ 14,739	$ 64,941	$ 1,202,982
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ -	$ 23,438	$ 2	$ 1,720	$ 25,160
Accrued liabilities	6,573	-	6	250	6,829
Due to others	-	-	-	12	12
Due to other Funds	170	1,273	-	4	1,447
Deferred revenue	15,422	-	4	-	15,426
Other	7,919	-	-	376	8,295
Total Liabilities	30,084	24,711	12	2,362	57,169
Fund Balances, all reserved	1,051,658	16,849	14,727	62,579	1,145,813
Total Liabilities and Fund Balances	$ 1,081,742	$ 41,560	$ 14,739	$ 64,941	$ 1,202,982

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	UNEMPLOYMENT COMPENSATION	EMPLOYEE BENEFITS	ENERGY CONSERVATION	OTHER	TOTAL
REVENUES					
Taxes:					
Income	$ -	$ -	$ -	$ 36	$ 36
Unemployment	175,733	-	-	-	175,733
Intergovernmental	9,116	-	266	960	10,342
Licenses, fees and permits	-	-	-	6,028	6,028
Earnings on investments	65,835	-	826	3,068	69,729
Sales and charges for services	-	-	-	332	332
Fines, forfeitures and penalties	1,690	-	-	1,784	3,474
Other	36	71,947	38	9,584	81,605
Total Revenues	252,410	71,947	1,130	21,792	347,279
EXPENDITURES					
Current:					
General government	-	276,693	402	19,463	296,558
Health and welfare	212,287	-	-	10,224	222,511
Inspection and regulation	-	-	-	5,084	5,084
Education	-	-	-	2,307	2,307
Protection and safety	-	-	-	1,907	1,907
Natural resources	-	-	-	1,336	1,336
Capital outlay	-	-	-	1,012	1,012
Debt service:					
Principal	-	-	-	67	67
Total Expenditures	212,287	276,693	402	41,400	530,782
Revenues Over (Under) Expenditures	40,123	(204,746)	728	(19,608)	(183,503)
OTHER FINANCING SOURCES (USES)					
Operating transfers in	-	203,490	-	12,490	215,980
Operating transfers in from component units	-	54	-	-	54
Operating transfers out	(2,060)	(4)	(44)	(2,768)	(4,876)
Total Other Financing Sources (Uses)	(2,060)	203,540	(44)	9,722	211,158
Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	38,063	(1,206)	684	(9,886)	27,655
Beginning Fund Balances	1,013,595	18,055	14,043	65,465	1,111,158
Residual Equity Transfers	-	-	-	7,000	7,000
Ending Fund Balances	$ 1,051,658	$ 16,849	$ 14,727	$ 62,579	$ 1,145,813


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
1912

NON-EXPENDABLE TRUST FUNDS

Non-Expendable Trust Funds account for assets held by the State in a trustee capacity, where the State must preserve the principal intact, and may expend only income derived from the principal for the funds' designated operations.

The Land Endowments Fund receives monies from land and property rentals and interest on land grants and investments.

The Other Non-Expendable Trust Fund consists of the Les Arie Memorial Fund, Arizona Arts Endowment Trust Fund, and the Riparian Acquisition Trust Fund

STATE OF ARIZONA
COMBINING BALANCE SHEET
NON-EXPENDABLE TRUST FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	LAND ENDOWMENTS	OTHER	TOTAL
ASSETS			
Current Assets:			
Cash and investments	$ 65,012	$ 6,805	$ 71,817
Receivables, net of allowances:			
Interest	13,708	19	13,727
Other	10,180	-	10,180
Due from other Funds	1,551	2,000	3,551
Total Current Assets	90,451	8,824	99,275
Long-term Assets:			
Investments	1,016,984	-	1,016,984
Receivables, net of allowances	111,055	-	111,055
Fixed assets:			
Property and equipment	14,059	-	14,059
Less: accumulated depreciation	(1,474)	-	(1,474)
Total Long-term Assets	1,140,624	-	1,140,624
Total Assets	$ 1,231,075	$ 8,824	$ 1,239,899
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts payable	$ 372	$ -	$ 372
Accrued liabilities	2	-	2
Due to other Funds	1,213	-	1,213
Deferred revenue	18,623	-	18,623
Other	2,467	-	2,467
Total Liabilities	22,677	-	22,677
Reserved Fund Balances	1,208,398	8,824	1,217,222
Total Liabilities and Fund Equity	$ 1,231,075	$ 8,824	$ 1,239,899

STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND BALANCES
NON-EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	LAND ENDOWMENTS	OTHER	TOTAL
OPERATING REVENUES			
Sales and charges for services	$ 35,214	$ -	$ 35,214
Intergovernmental	131	-	131
Earnings on investments	43,148	381	43,529
Gain on sale of land	146,304	-	146,304
Other	6,304	-	6,304
Total Operating Revenues	231,101	381	231,482
OPERATING EXPENSES			
Personal services	1,908	-	1,908
Contractual services	2,916	87	3,003
Aid to local governments	81,427	74	81,501
Depreciation and amortization	273	-	273
Insurance	101	-	101
Other	1,771	7	1,778
Total Operating Expenses	88,396	168	88,564
Operating Income	142,705	213	142,918
NON-OPERATING REVENUES			
Interest income	-	18	18
Other non-operating revenue	148	-	148
Net Non-operating Income	148	18	166
Income Before Transfers	142,853	231	143,084
Operating transfers in	-	2,000	2,000
Operating transfers out	(126)	-	(126)
Net Transfers	(126)	2,000	1,874
Net Income	142,727	2,231	144,958
Beginning Fund Balances, as restated	1,065,671	6,593	1,072,264
Ending Fund Balances	$ 1,208,398	$ 8,824	$ 1,217,222

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
NON-EXPENDABLE TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	LAND ENDOWMENTS	OTHER	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income	$ 142,705	$ 213	$ 142,918
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	273	-	273
Net decrease in fair value of investments	9,672	-	9,672
Total Adjustments	9,945	-	9,945
Changes in assets and liabilities:			
(Increase) decrease in receivables, net of allowances	(101,912)	9	(101,903)
(Increase) in due from other Funds	(428)	-	(428)
Increase in accounts payable	269	-	269
(Decrease) in accrued liabilities	(68)	-	(68)
Increase in due to other Funds	654	-	654
Increase in deferred revenue	3,282	-	3,282
Increase in other current liabilities	982	-	982
Net Changes in Assets and Liabilities	(97,221)	9	(97,212)
Net Cash Provided by Operating Activities	55,429	222	55,651
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Interest income	-	18	18
Other non-operating revenue	148	-	148
Operating transfers in	-	2,000	2,000
Operating transfers out	(126)	-	(126)
Net Cash Provided by Non-capital Financing Activities	22	2,018	2,040
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of fixed assets	(1,434)	-	(1,434)
Net Cash (Used) by Capital and Related Financing Activities	(1,434)	-	(1,434)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	344,642	-	344,642
Purchase of investments	(398,117)	-	(398,117)
Net Cash (Used) by Investing Activities	(53,475)	-	(53,475)
Net Increase in Cash and Cash Equivalents	542	2,240	2,782
Cash and Cash Equivalents - Beginning	64,470	4,565	69,035
Cash and Cash Equivalents - Ending	$ 65,012	$ 6,805	$ 71,817

PENSION TRUST FUNDS

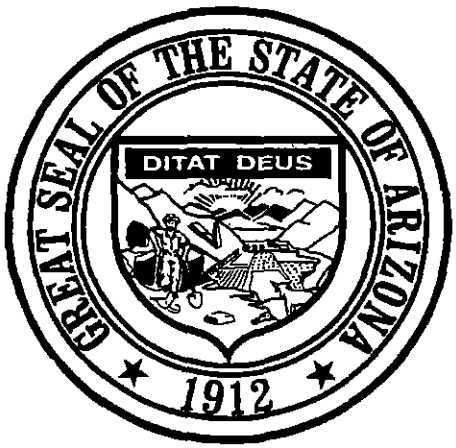
Pension Trust Funds account for transactions of the four public employee retirement systems for which the State acts as trustee.

The Arizona State Retirement System is a cost-sharing, multiple-employer pension system that benefits employees of public schools, the State and its political subdivisions.

The Public Safety Personnel Retirement System is an agent multiple-employer pension system that benefits fire fighters and police officers employed by the State and its political subdivisions.

The Elected Officials' Retirement Plan is a cost-sharing, multiple-employer pension plan that benefits all elected State and county officials and judges and certain elected city officials.

The Corrections Officer Retirement Plan is an agent multiple-employer pension plan that benefits town, city and county detention officers and certain employees of the State's Department of Corrections and Department of Juvenile Corrections.


GREAT SEAL OF THE STATE OF ARIZONA
DITAT DEUS
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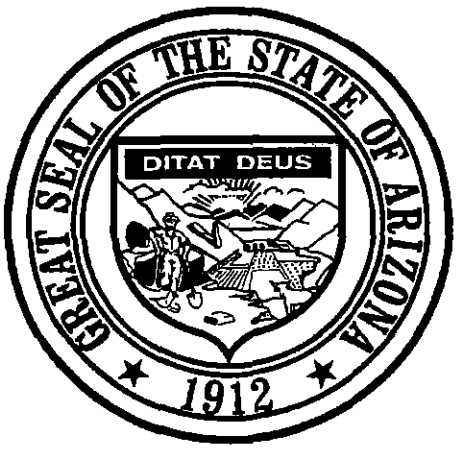
STATE OF ARIZONA
COMBINING STATEMENT OF PLAN NET ASSETS
PENSION TRUST FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	STATE RETIREMENT	PUBLIC SAFETY	ELECTED OFFICIALS'	CORRECTIONS OFFICER	TOTAL
ASSETS					
Cash and cash equivalents	$ 74,587	$ -	$ -	$ -	$ 74,587
Receivables:					
Accrued interest and dividends	76,530	22,433	1,782	3,357	104,102
Securities sold	129,082	-	-	-	129,082
Forward contract receivable	16,949	-	-	-	16,949
Contributions	8,357	6,918	141	262	15,678
Court fees	-	-	288	-	288
Miscellaneous receivables	3,662	-	-	-	3,662
Total receivables	234,580	29,351	2,211	3,619	269,761
Investments, at fair value:					
Temporary investments	2,007,843	-	-	-	2,007,843
United States Government securities	3,122,251	553,076	48,917	92,152	3,816,396
Corporate bonds	1,845,961	617,260	42,384	89,401	2,595,006
Corporate notes	-	102,954	2,999	17,000	122,953
Corporate stocks	16,037,444	2,977,527	221,190	455,400	19,691,561
Valley Ventures	25	-	-	-	25
Real estate mortgages and contracts	233,119	-	-	-	233,119
Collateral investment pool	-	1,296,756	95,992	182,960	1,575,708
Other investments	-	140,088	8,114	23,815	172,017
Money market fund	-	1,338	344	1,805	3,487
Total investments	23,246,643	5,688,999	419,940	862,533	30,218,115
Property and equipment, net of accumulated depreciation	-	468	-	-	468
Total Assets	23,555,810	5,718,818	422,151	866,152	30,562,931
LIABILITIES					
Accounts payable	16,934	-	-	-	16,934
Obligation under securities loan agreements	1,528,313	1,296,756	95,992	182,960	3,104,021
Other	280,020	-	-	-	280,020
Total Liabilities	1,825,267	1,296,756	95,992	182,960	3,400,975
Net Assets Held in Trust for Pension Benefits	$ 21,730,543	$ 4,422,062	$ 326,159	$ 683,192	$ 27,161,956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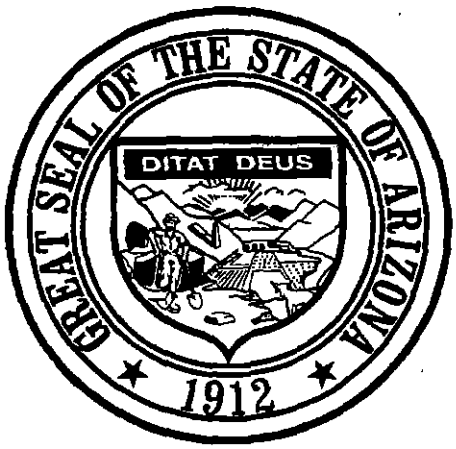
INVESTMENT TRUST FUNDS

Investment Trust Funds account for assets held by the State in a trustee capacity for local governments and political subdivisions, of the State of Arizona, which have elected to invest idle cash with the State Treasurer's Office. The Treasurer acts as trustee for the deposits made by participants.

Central Arizona Water Conservation District is an Investment Trust Account composed of corporate stock, corporate debt and United States Government securities. The Central Arizona Water Conservation District is the only participant in the account.

Local Government Investment Pool is an Investment Trust Account composed of corporate stock, corporate debt, negotiable certificates of deposit and United States Government securities.

Local Government Investment Pool-Government is an Investment Trust Account composed of repurchase agreements and United States Government securities. All investments of the fund are backed by the full faith and credit of the United States Government.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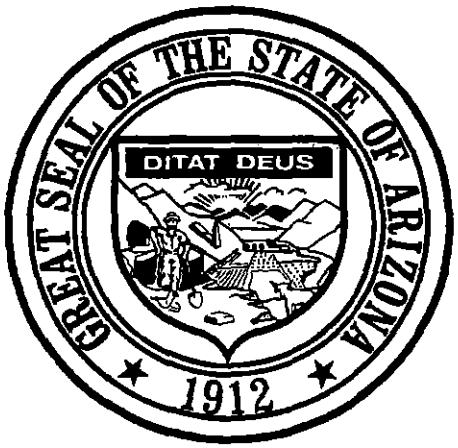
STATE OF ARIZONA
COMBINING STATEMENT OF NET ASSETS
INVESTMENT TRUST FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	CENTRAL ARIZONA WATER CONSERVATION DISTRICT	LOCAL GOVERNMENT INVESTMENT POOL	LOCAL GOVERNMENT INVESTMENT POOL-GOVERNMENT	TOTAL
ASSETS				
Investments in securities	$ 199,458	$ 3,043,817	$ 202,254	$ 3,445,529
Accrued interest and other receivables	548	12,470	1,912	14,930
Due from other Funds	686	14,469	860	16,015
Total Assets	200,692	3,070,756	205,026	3,476,474
LIABILITIES				
Due to local governments	493	11,168	197	11,858
Total Liabilities	493	11,168	197	11,858
Net assets held in trust	$ 200,199	$ 3,059,588	$ 204,829	$ 3,464,616
Net assets consist of:				
Participant shares outstanding	200,199	3,059,588	204,829	3,464,616
Participants' net asset value (net assets/shares outstanding)	$ 1.00	$ 1.00	$ 1.00	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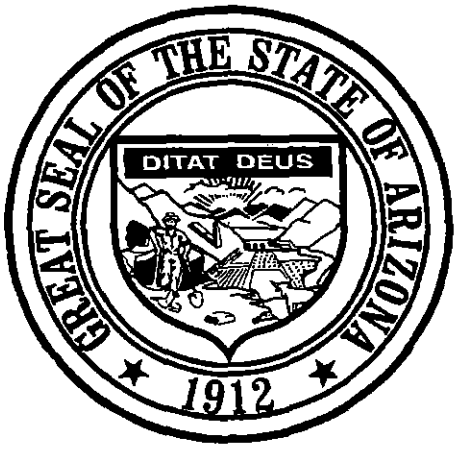
AGENCY FUNDS

Agency Funds account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the State, where the State acts as an agent for distribution to other governmental units or organizations.

The Treasurer Custodial Securities Fund consists of securities held by the State Treasurer for various State agencies as required by statute.

The Other Treasurer Funds account for other various deposits made with the State Treasurer for investment purposes.

The Other Agency Fund consists of various funds where the State acts as an agent for distribution to other governmental units or organizations.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STATE OF ARIZONA
COMBINING BALANCE SHEET
AGENCY FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	TREASURER CUSTODIAL SECURITIES	OTHER TREASURER FUNDS	OTHER	TOTAL
ASSETS				
Cash and investments	$ 3,018,291	$ 44,958	$ 106,115	$ 3,169,364
Receivables, net of allowances:				
Interest	-	67	47	114
Other	-	-	12,232	12,232
Due from other Funds	-	-	153	153
Total Assets	$ 3,018,291	$ 45,025	$ 118,547	$ 3,181,863
LIABILITIES				
Accounts payable	$ -	$ -	$ 1,614	$ 1,614
Accrued liabilities	-	-	26,686	26,686
Due to local governments	-	7,044	220	7,264
Due to others	-	11,690	63,762	75,452
Due to other Funds	-	26,069	1,824	27,893
Other	3,018,291	222	24,441	3,042,954
Total Liabilities	$ 3,018,291	$ 45,025	$ 118,547	$ 3,181,863

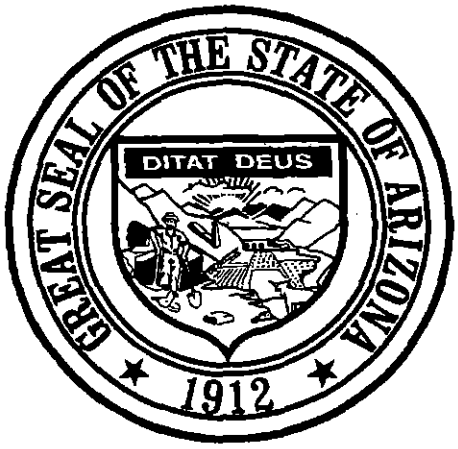
STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	RESTATED BALANCE JULY 1, 2000	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2001
TREASURER CUSTODIAL SECURITIES				
Assets:				
Cash and investments	$ 2,969,114	$ 558,460	$ 509,283	$ 3,018,291
Total Assets	$ 2,969,114	$ 558,460	$ 509,283	$ 3,018,291
Liabilities:				
Other liabilities	$ 2,969,114	$ 558,460	$ 509,283	$ 3,018,291
Total Liabilities	$ 2,969,114	$ 558,460	$ 509,283	$ 3,018,291
OTHER TREASURER FUNDS				
Assets:				
Cash and investments	$ 37,360	$ 626,389	$ 618,791	$ 44,958
Interest receivable	134	67	134	67
Total Assets	$ 37,494	$ 626,456	$ 618,925	$ 45,025
Liabilities:				
Accounts payable	$ 64	$ 50,035	$ 50,099	$ -
Due to local governments	4,417	528,084	525,457	7,044
Due to others	3,406	23,737	15,453	11,690
Due to other Funds	29,345	26,069	29,345	26,069
Other liabilities	262	156	196	222
Total Liabilities	$ 37,494	$ 628,081	$ 620,550	$ 45,025

(Continued)

STATE OF ARIZONA
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	RESTATED BALANCE JULY 1, 2000	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2001
OTHER AGENCY FUNDS				
Assets:				
Cash and investments	$ 116,714	$ 210,967	$ 221,566	$ 106,115
Interest receivable	362	47	362	47
Other receivables	38	12,232	38	12,232
Due from other Funds	-	153	-	153
Total Assets	$ 117,114	$ 223,399	$ 221,966	$ 118,547
Liabilities:				
Accounts payable	$ 2,395	$ 30,262	$ 31,043	$ 1,614
Accrued liabilities	20,973	26,686	20,973	26,686
Due to local governments	2,624	159	2,563	220
Due to others	67,519	60,060	63,817	63,762
Due to other Funds	212	1,834	222	1,824
Other liabilities	23,391	59,199	58,149	24,441
Total Liabilities	$ 117,114	$ 178,200	$ 176,767	$ 118,547
COMBINED TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and investments	$ 3,123,188	$ 1,395,816	$ 1,349,640	$ 3,169,364
Interest receivable	496	114	496	114
Other receivables	38	12,232	38	12,232
Due from other Funds	-	153	-	153
Total Assets	$ 3,123,722	$ 1,408,315	$ 1,350,174	$ 3,181,863
Liabilities:				
Accounts payable	$ 2,459	$ 80,297	$ 81,142	$ 1,614
Accrued liabilities	20,973	26,686	20,973	26,686
Due to local governments	7,041	528,243	528,020	7,264
Due to others	70,925	83,797	79,270	75,452
Due to other Funds	29,557	27,903	29,567	27,893
Other liabilities	2,992,767	617,815	567,628	3,042,954
Total Liabilities	$ 3,123,722	$ 1,364,741	$ 1,306,600	$ 3,181,863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GENERAL FIXED ASSETS ACCOUNT GROUP

Fixed assets used in Governmental and Expendable Trust Funds operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in the individual funds. Fixed assets related to Proprietary Funds, Non-Expendable Trust Funds, Pension Trust Funds, University Funds and the Component Units are accounted for in those funds.

STATE OF ARIZONA
SCHEDULE OF GENERAL FIXED ASSETS BY FUNCTION
JUNE 30, 2001
(Expressed in Thousands)

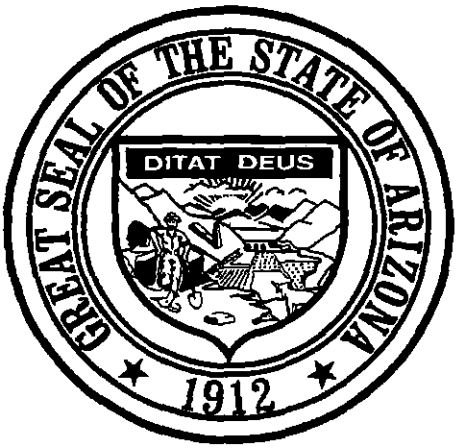
FUNCTION	LAND	BUILDINGS AND IMPROVEMENTS	OTHER IMPROVEMENTS	FURNITURE, VEHICLES, AND EQUIPMENT	TOTAL
General government	$ 16,755	$ 291,045	$ 1,233	$ 34,615	$ 343,648
Health and welfare	7,376	58,624	4,220	92,173	162,393
Inspection and regulation	-	75	-	17,819	17,894
Education	3,290	7,457	-	5,889	16,636
Protection and safety	6,900	494,232	46,449	152,252	699,833
Transportation	16,446	135,093	30,628	42,427	224,594
Natural resources	51,980	46,721	60,443	28,350	187,494
Total General Fixed Assets by Function	102,747	1,033,247	142,973	373,525	1,652,492
Construction in progress	-	242,697	-	-	242,697
Total General Fixed Assets	$ 102,747	$ 1,275,944	$ 142,973	$ 373,525	$ 1,895,189

STATE OF ARIZONA
SCHEDULE OF CHANGES IN GENERAL FIXED ASSETS BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

FUNCTION	BALANCE JULY 1, 2000	ADDITIONS	DELETIONS	BALANCE JUNE 30, 2001
General government	$ 340,936	$ 8,544	$ 5,832	$ 343,648
Health and welfare	153,649	19,200	10,456	162,393
Inspection and regulation	18,318	1,832	2,256	17,894
Education	15,722	999	85	16,636
Protection and safety	675,463	25,664	1,294	699,833
Transportation	214,526	14,267	4,199	224,594
Natural resources	169,289	20,417	2,212	187,494
Total General Fixed Assets by Function	1,587,903	90,923	26,334	1,652,492
Construction in progress	225,900	20,084	3,287	242,697
Total General Fixed Assets	$ 1,813,803	$ 111,007	$ 29,621	$ 1,895,189

STATE OF ARIZONA
SCHEDULE OF GENERAL FIXED ASSETS BY SOURCE
JUNE 30, 2001
(Expressed in Thousands)

GENERAL FIXED ASSETS		
Land	$	102,747
Buildings and improvements		1,033,247
Other improvements		142,973
Furniture, vehicles, and equipment		373,525
Construction in progress		242,697
Total General Fixed Assets	$	1,895,189
INVESTMENT IN GENERAL FIXED ASSETS FROM:		
General Fund	$	638,285
Construction in progress		38,844
Special Revenue Funds:		
State highway		224,594
Others		136,669
Construction in progress		1,253
Capital Projects Funds:		
Certificates of Participation Financed		279,023
General Fund Financed		16,920
Construction in progress		9,523
Special Revenue Funds Financed		345,165
Construction in progress		195,246
Expendable Trust Funds:		
Employee Benefits Fund		25
Energy Conservation Fund		40
Donations		8,327
Other Funds		1,275
Total Investment in General Fixed Assets	$	1,895,189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UNIVERSITY FUNDS

The University Funds account for the transactions of the State's three universities.

Current Operating Funds account for unrestricted resources over which the governing board retains full control in achieving the institutions' purposes and restricted resources, which may be utilized only in accordance with externally restricted purposes.

Loan Funds account for loans made to assist students in financing their education.

Endowment and Similar Funds account for private gifts, which specify income purpose and principal protection.

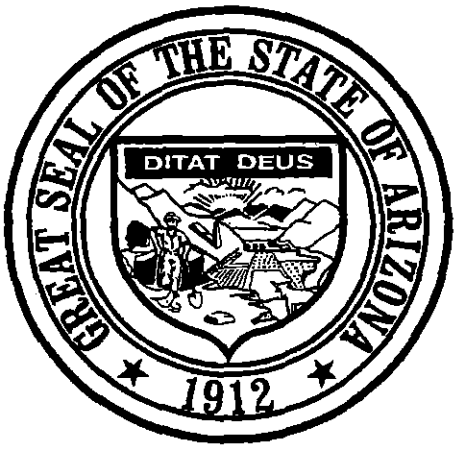
Agency Funds account for assets for which the university acts in a custodial manner.

Plant Funds account for institutional property investment, acquisition, renewal, replacement and debt service.

STATE OF ARIZONA
COMBINING BALANCE SHEET
UNIVERSITY FUNDS
JUNE 30, 2001
(Expressed in Thousands)

	CURRENT OPERATING FUNDS				
	UNRESTRICTED				
	GENERAL OPERATING FUNDS	DESIGNATED FUNDS	AUXILIARY ENTERPRISES FUNDS	RESTRICTED FUNDS	TOTAL CURRENT OPERATING FUNDS
ASSETS					
Cash and investments	$ 34,323	$ 173,411	$ 47,507	$ 51,001	$ 306,242
Cash held by trustee	-	-	-	588	588
Receivables, net of allowances	986	8,062	16,313	48,905	74,266
Due from other Funds	-	2,729	-	-	2,729
Inventories, at cost	25	312	14,791	-	15,128
Other	-	7,032	1,219	48	8,299
Fixed assets:					
Property and equipment	-	-	-	209	209
Total Assets	$ 35,334	$ 191,546	$ 79,830	$ 100,751	$ 407,461
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 9,322	$ 6,393	$ 7,221	$ 6,515	$ 29,451
Accrued liabilities	6,904	1,895	1,223	4,436	14,458
Due to other Funds	-	-	1,991	324	2,315
Deferred revenue	8,809	21,899	16,580	41,734	89,022
Revenue bonds	-	-	-	-	-
Certificates of participation	-	-	-	-	-
Leases and installment purchases	-	-	-	-	-
Other	-	127	751	-	878
Total Liabilities	25,035	30,314	27,766	53,009	136,124
Fund Balances:					
Restricted	-	14,000	-	47,742	61,742
Designated	10,299	147,232	52,064	-	209,595
Net investment in fixed assets	-	-	-	-	-
Total Fund Balances	10,299	161,232	52,064	47,742	271,337
Total Liabilities and Fund Balances	$ 35,334	$ 191,546	$ 79,830	$ 100,751	$ 407,461

	NON-OPERATING FUNDS				
	STUDENT LOAN FUNDS	ENDOWMENT AND SIMILAR FUNDS	AGENCY FUNDS	PLANT FUNDS	TOTAL ALL FUNDS
$	3,613	$ 206,481	$ 49,248	$ 131,122	$ 696,706
	-	18,626	-	41,233	60,447
	32,302	1,418	2,753	7,600	118,339
	-	-	-	70	2,799
	-	-	76	-	15,204
	-	-	65	-	8,364
	-	2,802	-	3,436,581	3,439,592
$	35,915	$ 229,327	$ 52,142	$ 3,616,606	$ 4,341,451
$	28	$ 10	$ 2,137	$ 30,353	$ 61,979
	3	-	7	3	14,471
	-	-	-	484	2,799
	6	6	-	65,066	154,100
	-	-	-	540,019	540,019
	-	-	-	236,234	236,234
	-	-	-	30,893	30,893
	-	-	49,998	3,451	54,327
	37	16	52,142	906,503	1,094,822
	35,604	184,110	-	27,541	308,997
	274	45,201	-	34,755	289,825
	-	-	-	2,647,807	2,647,807
	35,878	229,311	-	2,710,103	3,246,629
$	35,915	$ 229,327	$ 52,142	$ 3,616,606	$ 4,341,451


GREAT SEAL OF THE STATE OF ARIZONA
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COMPONENT UNITS

The Component Units include proprietary and fiduciary type organizations which are legally separate from the State but are considered part of the reporting entity because they are financially accountable to the State, and/or the State is able to impose its will on the organization.

The State Compensation Fund was established by the Legislature for the purpose of insuring employers against liability for workers' compensation; occupational disease compensation; and medical, surgical and hospital benefits.

The University Medical Center is a 365-bed, general acute-care teaching facility in Tucson, Arizona. It is the primary teaching hospital for the College of Medicine, College of Nursing and the College of Pharmacy for the University of Arizona.

The Arizona Power Authority purchases the State's allocation of Hoover power and resells it to Arizona entities that are eligible purchasers under federal and state law. Hoover power is produced by the Bureau of Reclamation at the federally-owned Boulder Canyon Project hydropower plant located near Las Vegas, Nevada.

Water Infrastructure Finance Authority (WIFA) is authorized to administer the Clean Water Revolving Fund and the Drinking Water Revolving Fund. The Clean Water Revolving Fund was created pursuant to the Federal Water Pollution Control Act of 1972, as amended by the Water Quality Act of 1987 (Clean Water Act) which required the State to establish the Clean Water Revolving Fund to accept federal capitalization grants for publicly owned wastewater treatment projects. The WIFA has entered into an agreement with the Environmental Protection Agency to administer the Drinking Water Revolving Fund pursuant to the Safe Drinking Water Act.

STATE OF ARIZONA
COMBINING BALANCE SHEET
PROPRIETARY AND FIDUCIARY FUND TYPES
COMPONENT UNITS
JUNE 30, 2001
(Expressed in Thousands)

	PROPRIETARY FUND TYPE			FIDUCIARY FUND TYPE	
	STATE COMPENSATION FUND	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	WATER INFRASTRUCTURE FINANCE AUTHORITY	TOTAL
ASSETS					
Current Assets:					
Cash and investments	$ 274,539	$ 35,586	$ 9,403	$ 43,325	$ 362,853
Receivables, net of allowances:					
Interest	18,266	-	209	4,171	22,646
Other	26,160	43,527	2,323	221	72,231
Reinsurance recoverables	43,148	-	-	-	43,148
Inventories, at cost	-	8,716	-	-	8,716
Other	5,841	1,830	2,740	-	10,411
Total Current Assets	367,954	89,659	14,675	47,717	520,005
Long-term Assets:					
Investments	2,203,777	-	-	74,794	2,278,571
Investments held by trustee	-	16,339	7,933	5,484	29,756
Receivables, net of allowances	-	-	-	216,192	216,192
Other	-	5,192	52,948	2,336	60,476
Fixed assets:					
Property and equipment	57,052	276,128	1,192	-	334,372
Less: accumulated depreciation	(24,868)	(167,501)	(1,001)	-	(193,370)
Total Long-term Assets	2,235,961	130,158	61,072	298,806	2,725,997
Total Assets	$ 2,603,915	$ 219,817	$ 75,747	$ 346,523	$ 3,246,002
LIABILITIES AND FUND EQUITY					
Current Liabilities:					
Accounts payable	$ -	$ 13,390	$ 312	$ -	$ 13,702
Accrued liabilities	8,503	6,724	912	2,676	18,815
Obligations under securities loan agreements	254,323	-	-	-	254,323
Deferred revenue	35,185	-	-	1,298	36,483
Current portion of long-term debt	-	2,580	-	-	2,580
Other	-	15,921	3,399	-	19,320
Total Current Liabilities	298,011	38,615	4,623	3,974	345,223
Long-term Liabilities:					
Accrued compensated absences	-	3,161	-	-	3,161
Accrued insurance losses	1,772,373	7,143	-	-	1,779,516
Long-term debt:					
Revenue bonds	-	70,145	67,599	137,925	275,669
NCCI assigned risk pool liability	22,058	-	-	-	22,058
Policyholders' dividends	13,750	-	-	-	13,750
Other	-	7,137	-	335	7,472
Total Long-term Liabilities	1,808,181	87,586	67,599	138,260	2,101,626
Total Liabilities	2,106,192	126,201	72,222	142,234	2,446,849
Fund Equity:					
Policyholders' surplus	497,723	-	-	-	497,723
Contributed capital	-	-	9	138,564	138,573
Retained earnings/Fund balances:					
Reserved	-	1,443	5,192	-	6,635
Unreserved	-	92,173	(1,676)	65,725	156,222
Total Fund Equity	497,723	93,616	3,525	204,289	799,153
Total Liabilities and Fund Equity	$ 2,603,915	$ 219,817	$ 75,747	$ 346,523	$ 3,246,002

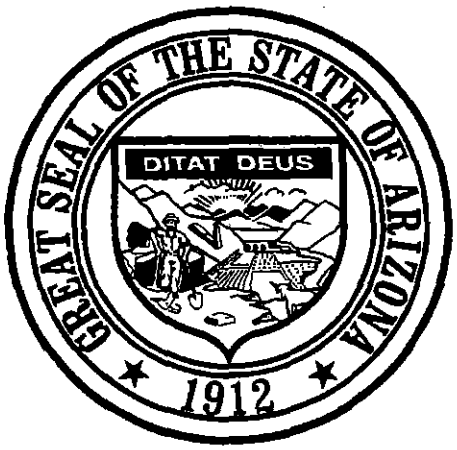
STATE OF ARIZONA
COMBINING STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES
PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	PROPRIETARY FUND TYPE			FIDCUIARY FUND TYPE	
	STATE COMPENSATION FUND	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY	WATER INFRASTRUCTURE FINANCE AUTHORITY	TOTAL
OPERATING REVENUES					
Sales and charges for services	$ -	$ 249,741	$ 20,734	$ -	$ 270,475
Premium revenues	185,373	-	-	-	185,373
Intergovernmental	-	-	-	2,205	2,205
Earnings on investments	210,248	(2,685)	-	5,575	213,138
Other	-	16,753	-	1,488	18,241
Total Operating Revenues	395,621	263,809	20,734	9,268	689,432
OPERATING EXPENSES					
Cost of sales and benefits	-	52,873	20,292	-	73,165
Personal services	-	119,254	1,005	366	120,625
Contractual services	-	38,687	-	415	39,102
Depreciation and amortization	2,084	17,872	37	-	19,993
Insurance	-	2,559	-	-	2,559
Provision for policyholders' dividends	68,000	-	-	-	68,000
Other	231,238	39,733	116	1,496	272,583
Total Operating Expenses	301,322	270,978	21,450	2,277	596,027
Operating Income (Loss)	94,299	(7,169)	(716)	6,991	93,405
NON-OPERATING REVENUES (EXPENSES)					
Interest income	-	-	1,208	8,073	9,281
Interest expense	-	-	(1,001)	(7,161)	(8,162)
Other non-operating revenue	447	903	18	-	1,368
Other non-operating expense	(2,267)	(484)	-	-	(2,751)
Net Non-Operating Income (Loss)	(1,820)	419	225	912	(264)
Income (Loss) Before Contributions and Transfers	92,479	(6,750)	(491)	7,903	93,141
Capital contributions	-	-	-	40,972	40,972
Operating transfers out to primary government	-	-	(24)	(30)	(54)
Net Contributions and Transfers	-	-	(24)	40,942	40,918
Net Income (Loss)	92,479	(6,750)	(515)	48,845	134,059
Beginning Retained Earnings/Fund Balances	405,244	100,366	4,031	16,880	526,521
Ending Retained Earnings/Fund Balances	$ 497,723	$ 93,616	$ 3,516	$ 65,725	$ 660,580

STATE OF ARIZONA
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY AND FIDUCIARY FUND TYPES COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2001
(Expressed in Thousands)

	PROPRIETARY FUND TYPE		
	STATE COMPENSATION FUND	UNIVERSITY MEDICAL CENTER	ARIZONA POWER AUTHORITY
CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	$ 94,299	$ (7,169)	$ (716)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization	2,084	17,872	37
Total Adjustments	2,084	17,872	37
Changes in assets and liabilities:			
(Increase) decrease in receivables, net of allowances	(2,547)	(2,960)	4
Decrease in reinsurance recoverables	3,095	-	-
(Increase) in inventories, at cost	-	(407)	-
(Increase) decrease in other current assets	288	(132)	(541)
Decrease in other long-term assets	-	617	-
Increase (decrease) in accounts payable	-	1,912	(759)
(Decrease) in accrued liabilities	(4,810)	(738)	-
Increase (decrease) in deferred revenue	306	-	-
Increase (decrease) in other current liabilities	-	1,851	(192)
(Decrease) in accrued compensated absences	-	(538)	-
Increase in accrued insurance losses	18,208	176	-
(Decrease) in NCCI assigned risk pool liability	(1,447)	-	-
Increase in policyholders' dividends	4,910	-	-
Increase (decrease) in other long-term liabilities	-	(2,302)	-
Net Changes in Assets and Liabilities	18,003	(2,521)	(1,488)
Net Cash Provided (Used) by Operating Activities	114,386	8,182	(2,167)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Interest expense	-	-	(1,001)
Other non-operating revenue	447	903	18
Other non-operating expenses	(2,267)	(484)	-
Operating transfers out to primary government	-	-	(24)
Retirement of revenue bonds principal	-	-	-
Interest payments under bonds	-	-	-
Draws under capital grant facility	-	-	-
Increase in cash advances for Hoover Uprating Project	-	-	(193)
Net Cash Provided (Used) by Non-capital Financing Activities	(1,820)	419	(1,200)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of fixed assets	(767)	(16,498)	(1)
Retirement of revenue bonds principal	-	(2,247)	-
Proceeds in funds received by trustee	-	-	175
Discount on bonds issued / defeased	-	-	83
Net Cash Provided (Used) by Capital and Related Financing Activities	(767)	(18,745)	257
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	-	-	-
Purchase of investments	(126,391)	-	-
Interest and dividends on investments	-	-	1,278
Change in cash collateral received from securities lending transactions	(21,034)	-	-
Change in long-term funds held by trustee	-	1,222	-
Net Cash Provided (Used) by Investing Activities	(147,425)	1,222	1,278
Net Increase (Decrease) in Cash and Cash Equivalents	(35,626)	(8,922)	(1,832)
Cash and Cash Equivalents - Beginning	310,165	44,508	11,235
Cash and Cash Equivalents - Ending	$ 274,539	$ 35,586	$ 9,403

FIDUCIARY FUND TYPE WATER INFRASTRUCTURE FINANCE AUTHORITY	TOTAL
$ 6,991	$ 93,405
-	19,993
-	19,993
(1,025)	(6,528)
-	3,095
-	(407)
-	(385)
199	816
(53)	1,100
(68)	(5,616)
(466)	(160)
-	1,659
-	(538)
-	18,384
-	(1,447)
-	4,910
184	(2,118)
(1,229)	12,765
5,762	126,163
-	(1,001)
-	1,368
-	(2,751)
(30)	(54)
(3,729)	(3,729)
(7,161)	(7,161)
44,489	44,489
-	(193)
33,569	30,968
-	(17,266)
-	(2,247)
-	175
-	83
-	(19,255)
5,406	5,406
(54,062)	(180,453)
8,073	9,351
-	(21,034)
2,399	3,621
(38,184)	(183,109)
1,147	(45,233)
42,178	408,086
$ 43,325	$ 362,853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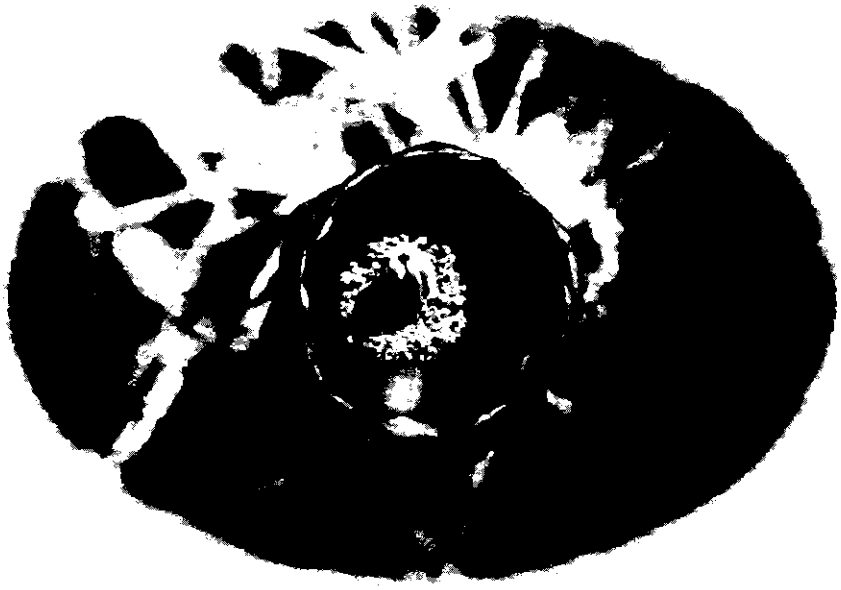
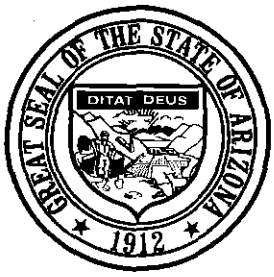
Statistical Section

(Not covered by the Independent Auditors' Report)





Claret-cup Cactus

The claret-cup cactus (Echinocereus triglochidiatus) produces a reddish to orange flower, which blooms between April and May, staying open day and night for several days.

STATE OF ARIZONA
REVENUES BY SOURCE
ALL GOVERNMENTAL FUND TYPES
AND EXPENDABLE TRUST FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

SOURCE	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Taxes:										
Sales	$4,019,574	$3,854,075	$3,508,327	$3,210,019	$3,060,258	$2,868,455	$2,681,756	$2,497,763	$2,254,022	$2,092,390
Income	2,879,011	2,820,067	2,648,271	2,460,630	2,289,563	1,933,554	1,904,250	1,728,225	1,581,287	1,447,437
Motor vehicle and fuel	1,332,917	1,360,117	1,412,052	1,332,059	1,287,636	1,196,683	972,276	912,337	858,315	803,133
Property	47,987	50,490	52,785	55,354	51,185	198,035	193,625	201,011	201,758	170,773
Unemployment	175,733	177,607	191,327	223,517	225,102	239,481	235,800	200,742	124,568	128,068
Other	508,499	491,379	493,760	443,999	487,921	445,526	390,564	337,480	298,841	297,648
Intergovernmental	4,421,940	3,987,414	3,758,126	3,362,720	3,444,011	3,211,114	3,087,353	2,629,549	2,345,782	1,977,665
Licenses, fees, and permits	221,063	204,976	189,657	175,335	194,410	173,311	159,890	140,083	134,377	121,039
Earnings on investments	266,400	232,849	205,875	217,620	179,276	152,795	118,767	69,552	62,639	90,249
Sales and charges for services	78,684	58,203	47,910	56,662	28,111	24,096	13,105	15,082	11,827	20,054
Fines, forfeitures, and penalties	87,620	80,466	80,210	63,425	57,000	56,702	59,271	38,782	45,260	40,085
Other	397,017	323,888	191,446	169,685	215,337	205,691	165,231	159,500	139,508	124,020
Total Revenues	$14,436,445	$13,641,531	$12,779,746	$11,771,025	$11,519,810	$10,705,443	$9,981,888	$8,930,106	$8,058,184	$7,312,561

STATE OF ARIZONA
EXPENDITURES BY FUNCTION
ALL GOVERNMENTAL FUND TYPES
AND EXPENDABLE TRUST FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

FUNCTION	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
General government	$1,970,048	$1,762,922	$1,605,452	$1,445,878	$1,336,854	$1,277,101	$1,189,562	$1,096,909	$954,950	$1,140,284
Health and welfare	5,131,426	4,556,141	4,304,739	4,005,762	4,057,734	3,790,039	3,644,541	3,208,547	3,101,338	2,762,896
Inspection and regulation	119,643	117,034	109,154	102,032	98,445	95,675	91,954	95,374	87,253	74,665
Education	3,473,005	3,188,645	2,829,105	2,591,121	2,400,212	2,220,246	2,033,675	1,841,961	1,733,768	1,647,948
Protection and safety	855,421	845,645	777,636	687,696	627,322	571,325	533,166	476,346	406,068	398,539
Transportation	1,829,350	1,811,957	1,748,482	1,499,551	1,307,624	1,287,309	1,008,472	1,011,600	908,800	857,691
Natural resources	116,732	100,718	94,399	97,377	90,417	87,252	81,629	91,227	60,480	50,389
Capital outlay	339,421	302,790	320,621	237,698	250,144	253,753	192,337	232,654	221,565	246,506
Debt service:										
Principal	227,408	192,563	180,157	167,590	168,815	151,652	118,869	100,754	81,000	77,109
Interest and other fiscal charges	91,364	91,222	89,323	89,272	99,150	103,562	107,750	111,123	112,091	110,628
Total Expenditures	$14,153,818	$12,969,637	$12,059,068	$10,923,977	$10,436,717	$9,837,914	$9,001,955	$8,266,495	$7,667,313	$7,366,655

STATE OF ARIZONA

PROPERTY TAX LEVIES, COLLECTIONS, TAXABLE PROPERTY ASSESSED AND ESTIMATED ACTUAL VALUES AND PROPERTY TAX RATES

FOR THE LAST TEN FISCAL YEARS

(Expressed in Thousands)

Property Tax Year	Property Tax Levies	Collections Related to Property Tax Year	Taxable Property Assessed Value	Taxable Property Estimated Actual Value	Property Tax Rate
2001	$ 17,905	$ 17,905	$ 32,528,311	$ 34,473,431	13.0 %
2000	22,532	22,532	29,944,135	31,837,412	13.0
1999	24,059	24,059	27,483,100	29,098,578	12.0
1998	27,129	27,129	25,682,910	26,793,103	10.0
1997	28,650	28,650	24,277,784	25,377,388	12.0
1996	32,759	28,828	22,811,159	23,333,678	14.0
1995	174,706	169,992	22,109,869	23,022,331	7.9
1994	176,972	171,251	21,688,439	22,179,318	8.2
1993	177,757	169,023	21,381,932	21,748,340	8.3
1992	182,012	171,592	21,532,550	21,934,247	8.5

Source: Department of Revenue Annual Financial Report

STATE OF ARIZONA

HIGHWAY CONSTRUCTION REVENUE BOND COVERAGE

FOR THE LAST TEN FISCAL YEARS

(Expressed in Thousands)

Fiscal Year	(1) Pledged Revenues	Debt Service Requirements			
		Principal	Interest	Total	Coverage
2001	$ 513,890	$ 52,055	$ 36,581	$ 88,636	5.8
2000	528,721	46,270	33,994	80,264	6.6
1999	509,935	43,805	31,090	74,895	6.8
1998	468,240	43,405	33,266	76,671	6.1
1997	468,542	40,970	36,148	77,118	6.1
1996	429,825	38,430	38,770	77,200	5.6
1995	399,605	36,330	40,974	77,304	5.2
1994	385,844	33,425	44,037	77,462	5.0
1993	355,304	27,865	48,289	76,154	4.7
1992	339,807	26,185	39,957	66,142	5.1

(1) For fiscal years 1992 through 1996, net of 7% distributed to cities with a population greater than 300,000 persons. For fiscal years 1997 and after, includes vehicle license tax revenues distributed directly to the State Highway Fund.

Source: The Arizona Department of Transportation Annual Financial Report, Statistical Section

STATE OF ARIZONA
UNIVERSITY MEDICAL CENTER REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year	Gross Revenues	Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2001	$ 599,965	$ 585,221	$ 14,744	$ 2,420	$ 4,277	$ 6,697	2.20
2000	559,135	534,258	24,877	2,280	4,411	6,691	3.72
1999	459,866	442,945	16,921	2,160	4,535	6,695	2.53
1998	410,887	385,354	25,533	2,045	4,649	6,694	3.81
1997	369,067	342,680	26,387	1,935	4,753	6,688	3.95
1996	380,743	356,271	24,472	1,485	4,836	6,321	3.87
1995	351,898	331,401	20,497	465	4,867	5,332	3.84
1994	318,181	301,139	17,042	445	4,896	5,341	3.19
1993	279,550	264,326	15,224	410	2,178	2,588	5.88
1992	253,038	239,050	13,988	395	4,109	4,504	3.11

Source: University Medical Center

STATE OF ARIZONA
UNIVERSITY OF ARIZONA REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	(1) Direct Operating Expenses	Net Revenue Available for Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2001	$ 710,423	$ 663,284	$ 47,139	$ 12,415	$ 16,359	$ 28,774	1.64
2000	674,330	625,318	49,012	11,700	13,081	24,781	1.98
1999	650,201	580,292	69,909	10,714	14,869	25,583	2.73
1998	605,197	555,733	49,464	9,830	14,463	24,293	2.04
1997	577,412	535,178	42,234	9,360	14,935	24,295	1.74
1996	563,623	513,444	50,179	9,491	15,421	24,912	2.01
1995	537,891	486,926	50,965	8,147	15,334	23,481	2.17
1994	511,315	467,291	44,024	6,450	13,813	20,263	2.17
1993	487,387	448,834	38,553	6,567	14,651	21,218	1.82
1992	477,700	446,850	30,850	5,347	14,246	19,593	1.57

(1) "Gross Revenues" and "Direct Operating Expenses" include Current Operating Unrestricted Funds only since these are the Funds that are pledged for debt service payments under the System Revenue Bond Indentures. Also excluded from expenses is interest, depreciation, and amortization.

Source: University of Arizona

STATE OF ARIZONA
ARIZONA STATE UNIVERSITY REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	Debt Service Requirements			
		Principal	Interest	Total	Coverage
2001	$ 257,477	$ 9,785	$ 12,139	$ 21,924	11.74
2000	247,792	8,995	11,766	20,761	11.94
1999	232,699	9,640	12,245	21,885	10.63
1998	226,112	9,205	12,685	21,890	10.33
1997	210,397	8,780	13,113	21,893	9.61
1996	196,143	8,330	13,563	21,893	8.96
1995	183,167	7,750	14,144	21,894	8.37
1994	165,736	7,085	14,807	21,892	7.57
1993	149,895	5,865	13,815	19,680	7.62
1992	149,683	5,395	17,632	23,027	6.50

(1) "Gross Revenues" consist of pledged revenues for the bond issue.

Source: Arizona State University

STATE OF ARIZONA
NORTHERN ARIZONA UNIVERSITY REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

Fiscal Year	(1) Gross Revenues	Debt Service Requirements			
		Principal	Interest	Total	Coverage
2001	$ 78,907	$ 6,214	$ 7,246	$ 13,460	5.86
2000	75,852	6,119	5,488	11,607	6.54
1999	73,467	6,075	5,810	11,885	6.18
1998	71,743	5,743	6,145	11,888	6.03
1997	70,036	5,677	4,859	10,536	6.65
1996	68,336	5,372	5,207	10,579	6.46
1995	61,526	4,675	5,525	10,200	6.03
1994	56,313	3,905	5,802	9,707	5.80
1993	50,734	3,415	5,718	9,133	5.56
1992	47,806	2,745	6,335	9,080	5.26

(1) "Gross Revenues" includes only revenues that are pledged for debt service payments under the System Revenue Bond Indenture.

Source: Northern Arizona University

STATE OF ARIZONA
ECONOMIC INDICATORS
FOR THE LAST TEN YEARS

Calendar Year Ended December 31	Unemployment Rate		(1) (2) Per Capita Personal Income	
	Arizona	U.S.	Arizona	U.S.
2000	3.90 %	4.00 %	$ N/A	$ N/A
1999	4.40	4.20	25,173	28,546
1998	4.10	4.50	24,206	27,203
1997	4.60	5.00	22,839	25,924
1996	5.50	5.40	21,611	24,651
1995	5.10	5.60	20,634	23,562
1994	6.40	6.10	19,774	22,581
1993	6.30	6.80	18,756	21,718
1992	7.60	7.40	18,131	20,146
1991	5.80	6.80	17,563	19,201

(1) Information for 2000 is not yet available.
(2) There is a two year lag for income.

Source: Arizona Department of Economic Security

STATE OF ARIZONA
MAJOR PRIVATE EMPLOYERS

Employer	Number of Employees
Honeywell	16,994
Motorola Inc.	15,000
Banner Health System	12,850
Wal-Mart Stores Inc.	11,730
Raytheon Co.	10,300
The Kroger Co.	10,135
Intel Corp.	10,000
America West Airlines	9,702
American Express	9,284
Safeway Inc.	8,870

Source: 2001 Republic 100, as of 12/31/00, Phoenix Newspapers Inc.

STATE OF ARIZONA
POPULATION BY COUNTY
FOR THE LAST TEN YEARS

COUNTY	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991
Maricopa	3,072,149	2,913,475	2,806,100	2,720,525	2,634,625	2,528,700	2,355,900	2,291,200	2,233,700	2,179,975
Pima	843,746	845,775	823,900	789,650	780,750	758,575	728,425	712,600	700,265	682,890
Pinal	179,727	165,400	157,675	150,375	144,150	139,000	132,225	127,225	122,600	119,650
Yavapai	167,517	155,900	148,500	142,075	134,600	130,300	123,500	118,400	114,110	111,100
Mohave	155,032	142,925	138,625	133,550	127,700	125,150	120,325	114,000	105,725	102,375
Yuma	160,895	139,650	135,200	129,275	124,950	121,975	119,650	116,450	112,825	110,225
Cochise	117,755	124,575	123,750	119,650	114,925	112,000	108,225	103,325	101,175	99,575
Coconino	116,320	122,825	121,625	117,475	113,475	110,750	107,500	104,700	101,350	99,150
Navajo	97,470	93,400	92,500	89,225	84,300	82,875	81,750	80,675	80,480	78,705
Apache	69,423	66,950	66,350	55,500	64,475	63,750	63,275	63,050	62,950	61,900
Gila	51,335	50,150	49,175	47,450	45,300	44,525	43,350	42,400	41,700	41,050
Graham	33,489	35,750	34,700	32,575	31,150	30,050	30,625	29,400	27,700	27,500
Greenlee	8,547	9,225	9,125	8,875	8,650	8,525	8,425	8,375	8,350	8,025
La Paz	19,715	19,250	19,000	17,625	18,200	16,700	16,075	15,550	14,825	14,550
Santa Cruz	38,381	39,100	37,800	36,350	35,050	34,275	32,400	31,525	31,050	30,400
Total	5,131,501	4,924,350	4,764,025	4,590,175	4,462,300	4,307,150	4,071,650	3,958,875	3,858,805	3,767,070

Source: Arizona Department of Economic Security

STATE OF ARIZONA
SCHEDULE OF BANK AND SAVINGS AND LOAN DEPOSITS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Millions)

	Banks			Savings and Loans		
Fiscal Year	State	Federal	Total	State	(1) Federal	Total
2000	4,454	36,000	40,454	-	2,768	2,768
1999	4,031	33,660	37,691	-	2,480	2,480
1998	3,331	32,844	36,175	-	2,138	2,138
1997	2,724	31,611	34,335	-	1,738	1,738
1996	9,746	23,912	33,658	22	1,289	1,311
1995	9,403	23,984	33,387	86	1,496	1,582
1994	10,357	21,014	31,371	79	1,109	1,188
1993	12,656	16,673	29,329	74	-	74
1992	13,775	16,015	29,790	63	-	63
1991	13,872	15,371	29,243	62	8,612	8,674

(1) Missing information not available as only State Savings and Loans were required to report to the Arizona Banking Department (1990-1993 only).

(2) Fiscal years 1994-1999 were restated because of a change in the source. The State will now be utilizing information provided by the Federal Deposit Insurance Corporation as the Arizona Banking Department is no longer preparing a report on this information.

Source: Federal Deposit Insurance Corporation

STATE OF ARIZONA
ASSESSED VALUE OF NEW COMMERCIAL AND RESIDENTIAL CONSTRUCTION
FOR THE LAST TEN YEARS

Calendar Year Ended December 31	COMMERCIAL CONSTRUCTION Number of Permits Issued	Percent Change	Value (Expressed in Thousands)	Percent Change	RESIDENTIAL CONSTRUCTION Number of Permits Issued	Percent Change	Value (Expressed in Thousands)	Percent Change
2000	53,877	11.00 %	$ 4,784,452	16.47 %	74,629	(7.21) %	$ 6,863,290	(5.52) %
1999	48,536	12.08	4,107,783	(9.49)	80,432	3.66	7,263,997	8.83
1998	43,303	9.03	4,538,720	13.35	77,594	11.46	6,674,574	22.23
1997	39,717	9.69	4,004,022	1.41	69,613	5.17	5,460,787	11.19
1996	36,209	10.87	3,948,490	33.15	66,194	3.93	4,911,269	22.77
1995	32,659	8.04	2,965,456	30.15	63,688	(0.59)	4,000,436	(15.26)
1994	30,228	6.30	2,278,460	47.15	64,065	21.08	4,720,754	30.09
1993	28,436	1.67	1,548,420	3.57	52,910	6.31	3,628,710	15.71
1992	27,969	7.61	1,495,012	17.10	49,771	17.65	3,136,169	33.41
1991	25,992	(5.79)	1,276,745	(28.75)	42,303	8.44	2,350,747	22.89

Source: College of Business, Arizona State University
Center for Business Research

STATE OF ARIZONA
PUBLIC SCHOOL ENROLLMENT - GRADES K-12
FOR THE LAST TEN ACADEMIC YEARS

Academic Year	Grades K-3	Grades 4-6	(1) Grades 7-9	(2) Grades 10-12	Total All Grades	High School Dropouts (3) Total	(4) Percent
2000-01	288,421	215,648	206,838	168,080	878,987	N/A	N/A
1999-00	283,378	207,899	206,639	168,710	866,626	26,097	11.10 %
1998-99	278,746	199,017	198,083	157,455	833,301	31,844	12.20
1997-98	238,769	192,714	187,959	146,710	766,152	27,999	11.50
1996-97	264,925	188,959	187,220	145,723	786,827	30,294	12.80
1995-96	248,295	179,154	179,021	137,975	744,445	26,401	12.20
1994-95	243,608	177,402	176,942	135,932	733,884	25,369	12.10
1993-94	236,519	172,891	167,598	129,089	706,097	25,450	13.83
1992-93	245,292	175,886	171,648	134,698	727,524	24,248	12.40
1991-92	242,287	170,518	163,325	131,974	708,104	18,602	9.30

(1) Includes ungraded elementary enrollment except 1997-98 and 1998-99.
(2) Includes ungraded secondary enrollment except 1997-98 and 1998-99.
(3) The high school dropout totals for Academic Year (AY) 1993-94 is based on a nine month school year. However, the total for AY 1992-93 is based on dropouts in a twelve month period, and the totals for AY 1990-91 and 1991-92 are also based on a twelve month period, less the number of students who re-enroll in September.
(4) Percent of total high school enrollment (Grades 9-12).

Source: Arizona Department of Education

STATE OF ARIZONA
AVERAGE STATE PRISON ADULT INMATE POPULATION
FOR THE LAST TEN FISCAL YEARS

Incarceration Institution	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93	1991-92
Florence Complex	8,176	7,723	7,794	8,145	7,693	7,205	6,988	6,083	5,275	4,628
Lewis Complex	3,656	2,151	978	-	-	-	-	-	-	-
Perryville Complex	1,885	1,564	2,653	2,403	2,581	2,432	2,375	2,342	2,237	2,198
Phoenix Complex	957	1,325	1,256	1,804	1,275	1,407	1,331	1,267	1,176	1,051
Tucson Complex	3,607	3,898	4,016	4,071	3,966	3,677	3,483	2,888	2,692	2,455
Douglas Complex	2,130	2,190	2,183	2,214	1,944	2,214	2,053	2,064	1,987	1,962
Winslow Complex	1,791	1,768	1,635	1,671	1,736	1,741	1,522	1,353	1,290	1,295
Safford Complex	1,624	1,839	1,778	1,804	1,979	1,749	1,493	1,476	1,395	1,143
Yuma Complex	2,048	2,241	2,226	1,328	764	303	297	264	241	238
Other	154	292	240	-	-	-	-	-	-	-
Private Prisons	1,423	1,411	1,410	444	445	-	-	-	-	-
Total	27,451	26,402	26,169	23,884	22,383	20,728	19,542	17,737	16,293	14,970
Repeat Offenders Admitted	N/A	N/A	N/A	N/A	2,581	2,248	2,271	2,090	1,825	1,692

Source: Arizona Department of Corrections

STATE OF ARIZONA
PUBLIC HIGHER EDUCATION INSTITUTIONS'
FULL-TIME EQUIVALENT FALL ENROLLMENT
FOR THE LAST TEN YEARS

Institution	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992
Universities:										
Arizona State University	53,900	51,390	50,624	49,707	43,105	40,910	39,552	39,147	37,985	36,949
Northern Arizona University	19,728	19,964	19,981	19,940	19,618	17,193	17,592	16,875	16,387	16,377
University of Arizona	36,125	34,488	34,326	34,327	33,737	29,724	31,042	31,314	31,381	30,888
Total	109,753	105,842	104,931	103,974	96,460	87,827	88,186	87,336	85,753	84,214
Community Colleges:										
Cochise County	2,289	2,141	2,173	2,453	2,419	2,267	2,270	2,529	2,591	2,625
Coconino County	1,404	1,449	1,454	1,308	1,364	1,485	1,387	1,295	1,114	948
Graham County	2,720	2,828	2,762	2,623	2,300	2,279	2,235	2,094	2,196	2,387
Maricopa County	43,020	42,320	41,104	39,435	37,265	37,064	35,903	35,762	35,907	36,667
Mohave County	1,838	1,763	1,876	1,788	1,671	1,805	1,731	1,708	1,732	1,667
Navajo County	1,933	1,875	1,444	1,624	1,711	1,744	1,723	1,741	1,747	1,597
Pima County	13,851	12,656	13,281	13,061	12,898	12,526	13,080	13,128	13,416	13,939
Pinal County	2,121	2,220	2,213	2,011	2,032	2,071	2,138	2,042	2,154	2,284
Yavapai County	2,357	2,272	2,343	2,322	2,348	2,254	2,382	2,258	2,260	2,262
Yuma County	3,001	2,922	2,889	2,773	2,762	2,759	2,708	2,691	2,580	2,442
Total	74,534	72,446	71,539	69,398	66,770	66,254	65,557	65,248	65,697	66,818
Total All Institutions	184,287	178,288	176,470	173,372	163,230	154,081	153,743	152,584	151,450	151,032

Sources: Arizona Board of Regents
State Board of Directors for Community Colleges

ACKNOWLEDGMENTS

The Comprehensive Annual Financial Report was prepared by the Department of Administration, Financial Services Division, Financial Reporting Section:

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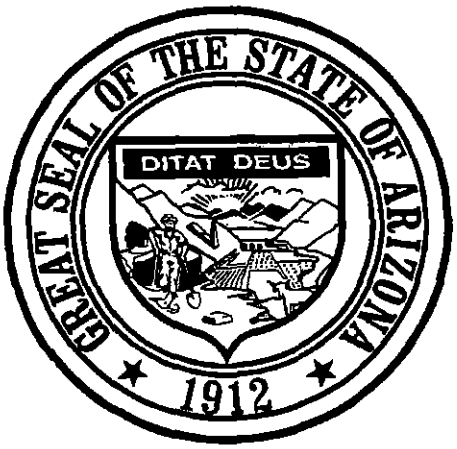
GREAT SEAL OF THE STATE OF ARIZONA
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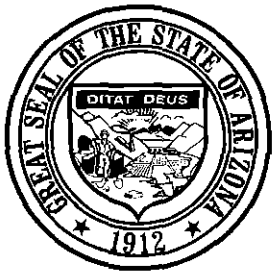

Botanical Garden

Landscape shot at the Desert Botanical Garden with golden barrel cacti on the left, prickly-pear cacti in the foreground and a mature agave in the background.